An Roinn Airgeadais
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Value Added Tax Tax Strategy Group – TSG 21/10

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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 2020, VAT accounted for approximately €12,486 million or approximately 22.2% of the overall tax yield to the Exchequer. This is a slight drop in comparison to the figures for 2019 however this is projected to increase again in 2021 as the economy regains productivity. In this context the Budget 2021 estimate for the VAT yield in 2021 is €13,945 million.

1.1 VAT Rating and Structure

The following VAT rates apply in Ireland:

- Standard rate of 23% applies to 50.8% of activity, including cars, petrol, diesel, alcohol, tobacco, electrical equipment and CD/DVDs.
- Reduced rate of 13.5% applies to 27.9% of activity, including fuel used for heat or light, construction, housing, labour intensive services and general repairs and maintenance.
- Reduced rate of 9% applies to 10% of activity, including holiday accommodation, restaurants, digital and print newspapers and periodicals, and sporting facilities.
- Super-reduced 4.8% rate applies to livestock by registered farmers.
- Zero rate accounts for 11.3% 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.
- Budget 2020: VAT on Food Supplement products set at 13.5%.
- July Stimulus Package 2020: Standard Rate of VAT Temporarily reduced by 2% to 21% from 1 September 2020 to end February 2021.
- Budget 2021: Tourism, including accommodation and food services, reduced to the second reduced VAT Rate of 9%; flat-rate farmer addition increased to 5.6%.

3. International Comparisons

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

As of 1 January 2021, 23 of the 27 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.

The second reduced VAT rate of 9% is the fourth highest second reduced VAT rate in Europe although only 18 Member States use a second reduced VAT rate. While this rate currently applies to only ten percent of economic activity it is expected that as pandemic restrictions are eased it will account for a greater share in 2022. This rate will only apply to hospitality and tourism sectors until 31 August 2022. The UK currently applies a second reduced rate of 5% to the these sectors and has indicated that this will continue until 30 September 2022.

4. Options: reform of the VAT structure and rates[1]

This section presents options for increasing or decreasing VAT rates, as well as options for restructuring or streamlining the VAT rates. The EU Commission, the OECD and others have, on an ongoing basis, recommended broadening the VAT base and narrowing the scope of reduced rates to stabilize VAT revenues.

All estimates are liable to change due to ongoing impacts of the COVID-19 pandemic.

4.1 Option 1: 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 (assuming the change is introduced from 1st January) as VAT is paid two months in arrears.

Please note that the ready reckoner figures below are based on economic activity in 2021 with certain public health restrictions still in place.

Rate	1% increase/decrease
9% Reduced rate	+/- €87m
13.5% Reduced rate	+/- 243m
23% Standard rate	+/- €442m

4.2 Option 2: 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. The VAT directive only allows for two reduced rates so in the event that a 5% rate was used it would impact on what other rates Ireland was able to retain.

1 The figures used in this paper are broad estimates, as the effect of social distancing requirements, necessitated by public health objectives, alters consumption behaviour. As the public health requirements are dynamic, the resulting figures incorporate the relevant behavioral changes, and should be read as indicative. A further caveat is that VAT for 2020/2021 is impacted by emergency tax warehousing measures.

Zero rate increased	Yield
0% to 5%	€491m
0% to 9%	€884m
0% to 13.5%	€1,327m
0% to 23%	€2,260 m

4.3 Option 3: 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%	16.015%
9%, 13.5% and 23%	18.053%

4.4 Option 4: 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%	€1,191m	items at 0% stay at 0% items at 9% to 5% items at 13.5% to 15% items at 23% to 25%
5%, 15% and 25%	€2,554m	items at 0% to 5% items at 9/13.5% to 15% items at 23% to 25%

4.5 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.

5. Options: assisting Small to Medium Businesses

In addition to the options for complying with the structure and rating of the Irish VAT system, the following sets out options for changes to the VAT system that would assist small to medium enterprises.

5.1 Option 5: 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 167,000, or 67% of all active 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	€18.5m	932
€2.5m	€38.1m	1,824
€2.75m	€57.6m	2,594
€3m	€78.9m	3,314

5.2 VAT registration thresholds

Small businesses with a low turnover are not obliged to register for 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 27 Member States.

6. COVID-19 Responses

6.1 Overview

As VAT is a harmonized tax in the EU, the measures available to EU Member States are bound by the rules of the EU VAT Directive. The Irish Government response to the crisis has been to provide income support to those who needed it, while also providing confidence to employers to retain the link with employees, so that when the crisis passes people can get back to work quickly.

In light of the crisis the European Commission, with the agreement of all Member States, applied a zero rate of VAT on a concessional basis on imports and on domestic supplies of specific items. This included personal protection equipment such as facemasks, as well as ventilators, thermometers, hand sanitisers and oxygen as necessary to combat COVID-19 when supplied to the HSE, hospitals, nursing homes, GP practices and the like, for use in the delivery of COVID-19 related health care services to their patients. This application will continue until 31 December 2021.

Additionally, VAT related measures were introduced to assist business, including; the suspension of debt collection in respect of unpaid VAT; reliefs for interest charges; refunds and repayments of VAT were expedited; and new warehousing measures for tax debts were introduced. These measures remain in place.

6.2 Application of the 9% VAT Rate

In recognition of the challenges facing the Hospitality and Tourism sector arising from COVID-19 the Minister for Finance announced that with effect from 1 November 2020 to 31 December 2021, hospitality and tourism related services and goods currently applying at the reduced rate of 13.5%, were reduced, on a temporary basis, to the second reduced VAT rate of 9%. This includes catering and restaurant supplies, tourist accommodation, cinemas, theatres, museums, historic houses, open farms, amusement parks, certain printed matter, and hairdressing.

This reduction was in line with the recommendations made by the Government’s Tourism Recovery Taskforce. Representative bodies for the tourism and hospitality sectors have called for the 9% rate to remain in place until 2025 or to remain in place indefinitely.

Given the continuing impact of the pandemic in 2021 and in recognition of the challenges facing the Hospitality and Tourism sector, the Government announced on 1st June 2021 that the temporarily reduced VAT rate of 9% applying to these sectors was to be extended to 31 August 2022.

This measure is designed to provide support to the sector, where many businesses have been closed for a significant period of time and are operating at a reduced capacity on reopening. The extension of the 9% rate until the end of the 2022 summer season allows for a longer period of recovery for the sector.

While it is difficult to estimate the cost of the extension, as it is difficult at this time to predict the level of activity in 2022, it is estimated that the extension will cost the Exchequer some €350m.

The 9% second reduced rate was in place on a temporary basis from 2012 to 2018 for the tourism and hospitality sectors. The majority of activity reverted back to 13.5%, with the exception of newspapers, eBooks and the provision of sporting facilities, from January 2019.

Evaluations were published in 2018 by the Revenue Commissioners and the Department of Finance regarding the 9% rate.[2] The main finding of the Department's Review was that expenditure on goods and services subject to the 9% VAT rate is particularly sensitive to income growth and to the economic cycle, more so than to price changes. This is evidenced by studies which have shown that hairdressing services are twice the cost in Ireland compared to Northern Ireland, despite the fact that a 20% VAT rate applies to the service in the North compared to 13.5% here.

As pandemic restrictions are lifted, it is expected that pent up demand for hospitality and tourism services will drive greater economic activity than a reduced rate of VAT, which is not always passed to consumers. In these circumstances, a further extension of the second reduced rate for the hospitality and tourism sectors may not be the most appropriate use of Exchequer funds.

[2] https://www.gov.ie/en/publication/dcc771-review-of-the-9-vat-rate/

7. VAT Developments at EU Level

7.1 Commission's Tax Action Plan 2020

The Tax Action Plan published by the Commission on 15 July 2020, set out 15 actions with regard to VAT. These proposals are aimed towards facilitating compliance, easing administrative burden, and increasing the competitive power of the EU.

The first of these proposals was published in December 2020 and relates to the VAT Advisory Committee. The Tax Action Plan also highlights agreement on the VAT Rates proposal as a key action.

Other proposed reforms include:

- Modernising VAT reporting obligations and further expanding e-invoicing.
- Moving towards a single EU VAT registration, with which tax payers would be able to provide services and/or sell goods anywhere in the Union.
- Further extending the scope of the VAT One Stop Shop (OSS).
- Eurofisc 2.0.
- Reinforcement of verifications of cross-border transactions.
- Boosting cross-border investigations on cross-border transactions.
- Closer dialogue/agreements with international partners (3rd countries).
- Dispute prevention and resolution for VAT.
- Revise the VAT special scheme for travel agents.
- Adapt the VAT framework to the platform economy.
- Greener taxation of the passenger transport sector.

As these proposals are published detailed discussions will begin between Member States and the EU Commission.

7.2 Modernisation of VAT on e-commerce - Implementing Regulations

In December 2017, the Commission adopted the VAT on e-commerce package, which changes how VAT is collected from the supplier in a transaction. The package was introduced to tackle e-commerce VAT fraud, and does so via the expansion of the online VAT portal One Stop Shop (OSS) and the introduction of the Import One Stop Shop. It further 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 where the value of the supply does not exceed €150.

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. In the context of the COVID-19 crises, agreement was reached at Council to delay the introduction of the new measures until 1 July 2021.

Outstanding EU Proposals

7.3 Reform of VAT rating

The Commission's proposal on VAT Rates was published in 2018 with the intention of giving much greater flexibility to Member States. The current VAT Rates only allow reduced rates for specific goods or services mentioned in Annex III of the Directive or if a historical derogation permits it. This approach is considered to be a positive list in that to apply a reduced rate you must be able to identify where such a reduction is permitted.

The most significant change in the VAT Rates proposal as it was published was that the positive list was to be replaced with a negative list. This would allow any good or service to avail of a reduced rate unless it was mentioned in the new Annex IIIa which would be a list of goods and services which must have a standard rate apply (e.g. tobacco, fossil fuels).

While it would also have removed many historical derogations used by Member States it would allow many of these derogations to be incorporated into the normal VAT framework at a Member State's discretion. While Ireland and a number of other Member States welcomed the Commission's approach of using a negative list the majority of Member States were very opposed to moving from a positive list.

The most recent compromise texts proposed by the Portuguese and Slovenian Presidencies would retain a positive list but expand it to cover more items. Discussions are ongoing as to the degree of flexibility Member States will be afforded within those items, particularly with regard to the setting of a zero VAT rate.

The compromise texts have also focused on whether historical derogations will remain unchanged. This is also subject to ongoing discussion. While the proposal as amended differs quite significantly from the original Commission proposal it is likely that a positive list will be the basis for eventual agreement.

7.4 Definitive System

The Commission's proposal on a Detailed Definitive System for VAT was published in tandem with the Rates proposal in 2018. The proposal would have made a number of major changes, including changing the place of supply of B2B cross-border goods from the Member State of the supplier to the Member State of the consumer. This would better support the single market by ensuring that the consumer was always charged the same VAT regardless of where the supplies of goods came from.

Included in the definitive proposal is a measure to remove the transitional VAT system that has applied since 1992. This includes the removal of all VAT derogations that were not already removed by the VAT Rates proposal. This is significant for Ireland as we apply derogated VAT rates to a wide range of economic activity.

Discussions on this proposal at EU level have been slow and no immediate agreement is foreseen.

7.5 Advisory Committee

The first of the proposals on the Commission's Tax Action Plan was published in December 2020 and relates to a VAT advisory committee. As it is an advisory committee, the VAT Committee can currently only agree non-binding guidelines on the application of the VAT Directive, whereas binding implementing measures may only be adopted by the Council based on a Commission proposal.

The proposal would establish the committee on a comitology basis which would confer implementing powers on it using a qualified majority system. A significant number of Member States have expressed concern that the proposal is not in line with the principle of proportionality and have suggested the use of Council implementing regulations to achieve any necessary clarity.

8. VAT Developments at Domestic Level

8.1 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 is paid one year in arrears.

A total annual capped fund of €5m is available for payment under the Scheme, which is subject to review after three years. Where the total amount of eligible claims from all Charities in a year exceeds the capped amount, claims are paid on a pro-rata basis.

In the first year of the Scheme, applications were made from January to June 2019 in respect of the year 2018. In total 1,143 claims were made and the total value of these claims was €37,446,576. These totals mean that the average claim value was €32,762 and that the average value of repayment was €4,374. This is a repayment percentage of 13.4%

Last year, in response to the impact of the COVID-19 pandemic, the closing date for submission of claims was extended from 30 June 2020 to 31 August 2020. In total, 910 claims were received for that year and as the total amount claimed exceeded the €5m fund, refunds were issued on a pro-rata basis, with the full fund allocated. The total value of claims for 2019 was €39,651,368 with claimants receiving, on average, 12.6% of their claim for 2019.

Revenue has just completing its analysis of claims in respect of eligible VAT paid by charities in 2020 which were submitted between 1 January and 30 June 2021. In total 729 claims were made and the total value of these claims was €31,719,121, with claimants receiving about 16% of their claims in 2020.
As the scheme is now in its third year of operation a review has been undertaken of its operation. Details of that review are set out in Appendix 2 of this document.

8.2 VAT on Housing

The VAT rating of goods and services is subject to EU VAT law, with which Irish VAT law must comply. Under the EU VAT Directive it is not permissible to differentiate between the supply of different types of residential property, such as apartments and housing, for the purpose of applying VAT rates. While most Member states apply the standard rate to construction services, Ireland already applies a 13.5% reduced rate of VAT to all construction services under a derogation from the EU VAT Directive.

Ireland could increase VAT on construction to the standard rate of 23% however this would remove the historical derogation currently applied and it would not be possible to restore a reduced rate to apply to all construction services.

It is possible for Ireland to apply the 9% reduced VAT rate to the construction, repair and renovation of residential housing. However, it is not possible to apply the 9% rate to non-residential construction.

Applying a 9% VAT rate to the construction of new residential properties would involve having two separate VAT rates applying to different construction services. This would be very difficult to administer and could lead to accidental or fraudulent underpayments of VAT, where an underpayment of VAT may arise in the construction of an apartment block. The apartment block may be classed as purely residential in order to avail of a reduced rate of 9% and then subsequently become a mixed-use block with a commercial/retail element on the ground floor. Policing the measure would be difficult and could result in fraudulent behaviour.

If this incentive was introduced as a temporary measure, this would add an administrative burden and confusion in terms of the implementation timeline and which properties would qualify during the period in question. It is likely that the industry would lobby for the extension or permanent retention of the 9% rate once it is put in place. It is not expected that any reduction in the VAT rate would be passed to consumers. The industry have previously indicated that they see a reduction in the VAT rate as a method to improve cash flow and not as a tool to affect price. However a temporary reduction could lead to a price increase when the 9% rate reverted to 13.5% as firms sought to preserve their gains from the reduction.

Revenue estimated, in June 2021, that reducing the VAT rate on residential construction and repair and maintenance from 13.5% to 9% was likely to cost in the region of €600m in 2022. This is based on the assumption that 33,000 units are delivered in 2022. The VAT reduction on the construction element is estimated to account for 75% of the total cost while repair and maintenance would account for the residual cost.

This cost is likely to increase each year and is dependent on both the final price charged to consumers and, for the social element, increases to the price charged on tenders relative to output and increases in material input costs.

There is no provision under the EU VAT directive which allows for different VAT rates to be charged on residential construction depending on the region in which the activity takes place.

9. Gender and Equality Implications

Gender

Gender-specific measures can be difficult to enact in the VAT system, as the principle of fiscal neutrality dictates that similar products must be treated similarly – except in the cases of historical derogations, or where the EU has agreed specified discretion in the setting of VAT rates. Following the recommendations of the Period Poverty Working Group led by the Department of Health in conjunction with the National Strategy for Women and Girls the VAT rate on newer period products was reduced to 13.5%.

Equality

In general, changes to VAT rates must be considered alongside the awareness that indirect taxes tend to be more regressive than others. Those in lower income deciles tend to spend proportionately more of their income via indirect taxes than those in higher income deciles. Ireland’s VAT rate structure reflects efforts to compensate for this.

September 2021

Appendix 1

LIST OF VAT RATES APPLIED IN THE MEMBER STATES (1 January 2021)

Member States	Zero	Super	Reduced	Standard	Parked
Austria	-	-	10 / 13	20	13
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	0	-	5 / 9	19	-
Latvia	-	-	5/12	21	-
Lithuania	-	-	5 / 9	21	-
Luxembourg	-	3	8	17	14
Hungary	-	-	5 / 18	27	-
Malta	0	-	5 / 7	18	-
Netherlands	0	-	9	21	-
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	-
Average			**6.3/ 10.9**	**21.5**	

Appendix 2

Review of Charities VAT Compensation Scheme

1. Introduction

1.1. Background

The VAT Compensation Scheme for charities was introduced in Budget 2018 to reduce the tax burden on charities and to partially compensate them for the VAT paid in delivering on their charitable purposes. Under the scheme charities may claim a refund of a proportion of their VAT costs based on their level of non-public funding.

According to the original paper produced by the Working Group on VAT "The charities' view is that the VAT burden significantly diminishes the capacity of charities…. to deliver services; that it promotes over-reliance by charities on state grants and the taxpayer; and is at odds with Government efforts to regulate the sector in that it penalises good governance in organisations that use professional financial, legal and training services."

Claims and payments are made in arrears in respect of the previous calendar year. A total annual capped fund of €5m is available for payment under the scheme. Where the total amount of eligible claims in a year exceeds the capped amount, claims are paid on a pro-rata basis.

The scheme has now operated for two years with payments having issued in 2019 and 2020. This year the scheme has been open since January to claims relating to VAT paid in 2020. When the scheme was introduced it was indicated that a review would be carried out after three years. The purpose of the review is to ascertain if the scheme is fit for purpose, and that the operation and administration of the scheme does not give rise to unnecessary burdens for the charities and the Revenue Commissioners.

The Review was carried out by representatives from Charities Institute Ireland (Cii), The Wheel, the Revenue Commissioners and the Department of Finance.

1.2 Operation of the Scheme

Charities are not generally registered for VAT so they pay VAT on their expenditure and are not entitled to deductibility in respect of that VAT. For a charity to qualify for the scheme, it must be registered as such with Revenue and hold a charitable tax exemption and it must also be registered with the Charities Regulatory Authority (CRA), both at the time the qualifying expenditure was paid and at the time of making the claim. The scheme operates by allowing the charities to claim a refund of a proportion of their VAT costs based on their level of non-public funding.

VAT costs may be claimed in relation to VAT paid on goods and services purchased for the charitable purposes of the organisation. Charities are entitled to claim a refund of a proportion of their eligible VAT costs based on the level of non-public funding they receive. So, an organisation that receives 100% of its funding from non-public funding may claim 100% of its eligible VAT costs. However, for example, where an organisation receives 60% of its income from public funding, it may claim only 40% of its VAT costs. Furthermore, as it is a requirement of VAT legislation that the operation of VAT does not lead to distortion of competition, other amounts may also be deducted from the qualifying income of a charity e.g. income from shops, restaurants and retail outlets, where the charity could be considered to be in competition with VAT registered organisations.

The minimum amount which may be claimed under the Scheme is €500 and there is no maximum claim amount.

The funding for the scheme is capped (currently at €5m) and claims may be made from January up to the closing date of 30 June in a particular year, in respect of eligible VAT paid in the previous calendar year. Late applications are not accepted. In 2020 however, having regard to the administrative difficulties presented by the Covid-19 pandemic, the closing date was extended to 31 August 2020, to allow charities extra time to make their claims. The closing date in 2021 is 30 June 2021.

In the two years of the operation of the scheme, claims received exceeded the capped amount available. In 2018, 1,100 claims, valued at approximately €37.5m were made while some 900 claims valued at €40m were submitted in 2019. These payments were calculated and issued on a pro-rata basis, as a result charities received 13.4% and 12.6% of the original claim submitted.

Statistical Data in Respect of 2018 and 2019 is set out in Annex 1.

1.3 Review Process

Since the inception of the scheme there has been significant consultation and co-operation between the sector, the Department of Finance and the Revenue Commissioners, who operate the scheme on behalf of the Department. Each group has acknowledged the assistance of the others, in particular regarding the sharing and dissemination of information and the help provided to charities submitting claims under the scheme.

This collaborative approach has been significantly expanded in 2021, to ensure that charities have the necessary information and tools to submit an application free from error. Cii and The Wheel together with Revenue and the Department of

Finance hosted an information webinar on the scheme and directed charities to a wide range of resources available from Revenue and indeed the Charities Representative bodies' websites. Supporting articles have also been published in a number of professional accountancy bodies publications to ensure that advisors to the sector are familiar with the scheme. Key messages focused on the importance of early submission and non-inclusion of public funding.

This collaborative approach has continued with representatives from the Department of Finance, Revenue and Charities' representative bodies working closely to review the scheme.

2. Issues considered

2.1 Operational issues

In general, the scheme operated well, with charities obtaining assistance and information from their representatives and from Revenue. For example, in both years for which the scheme has operated, Revenue made direct contact with approximately 20% of applicants in an effort to advise of claims that had been incorrectly calculated. While many queries which were dealt with in the first year of the operation of the scheme did not arise again, a number of these did recur and required a considerable amount of work by those processing the claims. Given that this is a relatively new scheme, it is to be expected that such teething problems will occur.

2.2 Scope of Scheme and Value of Payments Issued

Consideration was given to the scope of the scheme and whether any groups or activities are unnecessarily or effectively excluded. As regards exclusion, any organisation which is a registered charity and which has charitable exemption under Section 207 of the Taxes Consolidation Act 1997 is qualified to make a claim under the scheme.

The scope of the scheme may however be affected by the size of the organisation and the scale of the claim submitted. In this regard, it is important to note that the scheme was developed to support charities that have less dependence on the state as they rely primarily on fundraised income which lessens the dependence on the state for financial support. The annual amount available under the scheme is capped at €5m and the minimum claim is €500, although there is no cap on the maximum amount which may be claimed. However, as total demand has exceeded the amount available in the two years of the operation of the scheme, payments were calculated on a pro-rata basis. Therefore, while the absolute value of the payment made in respect of a large claim was still significant, the amount paid in respect of a small claim was very low e.g. the average lowest payment was €65.

This has given rise to concerns that smaller charities are being displaced by larger charities and may not submit claims due to the level of work involved in order to receive a small payment. The review considered the possibility of a maximum claim and/or a maximum payment. At present there is a minimum claim of €500 and no maximum claim. Similarly, there is a minimum payment of €5 and no maximum payment.

Revenue systems were originally designed to put a maximum cap on any individual claim by a charity in the context of a very large project. Ultimately, the charities representatives felt that one of the core purposes of the scheme was to encourage charities to seek out additional and alternative sources of non-public funding. As the Scheme was new and nobody knew how much would actually be claimed, no maximum claim amount was therefore introduced.

The charities representative bodies are now of the view that whereas the best means of ensuring a higher proportion of compensation is to increase the overall pot of money available, a maximum claim amount does need to be introduced to ensure no single claim disproportionately draws on the Scheme in favour of any one charity.

The pattern of claims in the first two years of Scheme operation indicate that, in the largest claim band, approximately 30 charities have an average claim amount of €575,000 for 2019 (€545,000 for 2018) and therefore to guard against any one claim disproportionately benefiting from the Scheme, the charities representatives recommend a maximum eligible claim ceiling of €1m. This would be at a level to allow continued substantial payment to charities while protecting the total funding available for the maximum benefit of all charities.

2.3 Public Funding

Charities are entitled to claim a refund of a proportion of their VAT costs based on the level of non-public funding they receive e.g. a charity which receives 70% of its income from private sources can claim 70% of eligible VAT costs. In order to calculate the relevant proportion, it is therefore necessary for charities to calculate their total income and then to deduct public funding from that figure.

Many queries arose as to what constituted public funding in 2019 when the scheme commenced. It was expected that there would be a decline in such queries in 2020. However, this was not the case and a number of errors continued to be identified. In some cases, for example, the money received from the scheme in 2019 was included in as non-public income for the purposes of the 2020 claim. The charities representative organisations have developed a template to assist their members with calculation of qualifying and non-qualifying income and retention of this by charities will assist in dealing with any issues that may arise when the claim is being processed.

The Revenue website provides a lot of information as to what constitutes public funding and has been expanded on since first written. It is expected that charities who consult that material will in most cases find the answer to their question. The material is also reviewed on a continuous basis to include information which it is considered could be useful to claimants.

It should also be noted that:

- claimants are required to declare and certify that all information provided in respect of their claim is correct,
- the Revenue Commissioners are entitled to reject claims, and
- if it is discovered following payment of a claim, that the recipient was not entitled to all or any part of the amount received, the Revenue Commissioners may seek a refund or may deduct the amount from any other monies due to be paid to the recipient by the Revenue Commissioners.

The preferred solution of course is that the information provided in respect of the claim is correct from the outset.

A number of charities who struggled with the process can now avail of additional resources developed by the representative groups including the above mentioned calculation template.

2.4 Improvements to claims process

As previously outlined, approximately 20% of claims require further support and investigation from Revenue. This involves significant additional administrative work and therefore some discussion was given to how this issue could be addressed effectively, including the following options:

1. the rejection of a claim in total (i) if incorrect by more than 10% or (ii) if the errors were recurring;
2. a requirement that the claimant must provide a statement/declaration from their auditor that their claim is correct and complies with the scheme and legislation.
3. The requirement for uploading other documents at submission stage such as a proof of calculation of income.

However, the preferred option is to prevent the occurrence of such issues and an awareness campaign to highlight this issue was undertaken by the Representative Bodies. As part of this, a Webinar was held in March 2021 with an attendance in excess of 150 representatives of individual charities. This presented an opportunity for the Revenue Commissioners to make a presentation on some of the recurring issues arising with applications under the scheme. This complemented the ongoing communications strategy of the Charities Representative bodies around the scheme.

3. Justification for Continuation of the Scheme & Annual Amount of Fund

The charities representatives consider that the demand for the scheme, as evidenced in the appended statistics, justifies the continuation of the scheme. They also stated that the scheme has had a positive impact on the sector. However, they remain concerned at the size of the annual fund and the level of demand for funding. A capped annual amount of €5m was made available for the first three years of the operation of the scheme and the sector would like to see this increased, in recognition of the significant demand.

The Charities Representative bodies conducted a survey in April 2021 to ascertain the value of the VAT Compensation Scheme to the sector and to assess how the scheme worked operationally. Almost 90% of respondents reported that the VAT Compensation Scheme claim process was straightforward and easy to follow and that for the charities that did need to engage with Revenue, that experience was overwhelmingly positive. The survey also highlighted the value and importance of the scheme in empowering charities to deliver their mission.

The main finding from the survey was the huge value of any additional income in supporting charities to deliver their missions. Many charities also directly requested an increase to the funding provided. A summary of this research may be found in Annex 2.

Annex 1

1. Statistical Data in Respect of 2018 and 2019

The following tables provide statistical information relating to both years for which payments have issued.

Charities VAT Compensation Scheme 2018

Category	**Number of Claims**	**Value of Claims**
Religion	190	€13,587,503
Community	703	€16,283,804
Education	167	€2,625,139
Relief of Poverty	83	€4,950,130
Total	**1,143**	**€37,446,576**
Average Value of Claim	**€32,762**	
Repayment Percentage	**13.4%**	
Claim Amount Range	**Number of Claims**	**Value of Claims**
€250,000+	28	€15,269,439
€120,000 - €249,999	45	€7,849,898
€80,000 - €119,000	29	€2,797,162
€50,000 - €79,999	43	€2,705,021
€10,000 - €49,999	269	€6,447,948
€5,000 - €9,999	156	€1,103,287
€1,000 - €4,999	462	€1,190,151
€500 - €999	111	€83,670

Charities VAT Compensation Scheme 2019

Category	**Number of Claims**	**Value of Claims**
Religion	168	€13,191,409
Community	550	€20,031,539
Education	126	€2,685,371
Relief of Poverty	65	€3,743,049
Total	**909**	**€39,651,368**
Average Value of Claim	**€43,621**	
Repayment Percentage	**12.6%**	
Claim Amount Range	**Number of Claims**	**Value of Claims**
€250,000+	30	€17,250,425
€120,000 - €249,999	52	€8,720,545
€80,000 - €119,000	36	€3,538,351
€50,000 - €79,999	44	€2,739,966
€10,000 - €49,999	239	€5,544,465

€5,000 - €9,999	148	€1,039,422
€1,000 - €4,999	298	€770,730
€500 - €999	62	€47,464

Annex 2

Summary of Survey Responses from Charity Sector

As part of the VAT Compensation review process, Charities Institute Ireland and The Wheel commissioned a short survey which was distributed to members of both organisations in April 2021 to seek feedback on the operation of the scheme and suggestions for possible scheme enhancements.

The following is a short summary of the response to the survey

1. A total of 48 charities responded, the majority of these were in the Health and Social Services sub sectors.

2. The vast majority of charities applied to the scheme with almost 70% of charities applying to the scheme in 2018 and 2019. On average one in five charities did not apply to the scheme.

3. In terms of the operation of the scheme, most found the process very straightforward. Again the majority of claimants did not need to engage directly with Revenue but for those who did, most found that engagement very positive.

4. The survey asked whether charities had any suggestions to improve the process.
    a. Most respondents found the process straightforward
    b. Some charities thought a template to support the calculation would be helpful[3].
    c. A number of charities requested that the fund be increased to make the process "worthwhile".

5. While Charities were positive about the scheme, only 10% of respondents indicated that the funding was either significant or very significant. 50% indicated that funding did not make a significant difference to their organisation which may correlate to the feedback on the pro rata amount received (approximately 13% of amounts claimed in both 2018 and 2019).

6. Charities were also asked to provide examples of how the VAT Compensation Scheme enabled them to deliver their charitable mission.

[3] A template has since been developed by the representative bodies and has been made available to charities.

The following are some examples of how charities used this additional funding:

a. The VAT compensation scheme has enabled us to dedicate even more funds to our vital cancer services. This was particularly true given the challenges and increases in demand for our services due to Covid-19. The €68k we received from the VAT compensation scheme in 2020 is the equivalent of funding nearly ***200 nights of palliative care*** for cancer patients through our Night Nursing programme.

b. The refund from the Scheme is equivalent to running ***Childline for two days***.

c. Grant funding covers about ***50% of our annual running costs*** and we depend on fundraising income to cover the remainder. Any income, including the VAT compensation scheme, enables us to provide the range of housing and support services we offer.

d. ***Very little at present*** payout rate but if the payout would more closely matched the VAT paid, it would make a difference. It would almost fund the cost of an additional headcount.

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