An Roinn Airgeadais
Department of Finance

Value Added Tax
Tax Strategy Group – 20/07
September 2020

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

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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 2019, VAT accounted for approximately €15,120 million or approximately 25% of the overall tax yield to the Exchequer. Based on economic assumptions in the Stability Program Update 2020, total taxation revenue is expected to decline to pre-2017 levels in 2020. In this context, the estimate for the VAT yield in 2020 is €12,305 million. However, this is projected to increase again in 2021 as the economy regains productivity.

1.1 VAT Rating and Structure

The following VAT rates apply in Ireland:

- standard rate of 23% applies to 53% of activity, including cars, petrol, diesel, alcohol, tobacco, electrical equipment and CD/DVDs.
- reduced rate of 13.5% applies to 34% 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 12% 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.

3. International Comparisons

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

As of 1 January 2020, 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.

4. Options: Programme for Government

In response to the COVID-19 crisis, a range of measures were introduced to provide income support to those who need it while also giving confidence to employers to retain the link with employees so that as the current crisis passes, people can get back to work as quickly and seamlessly as possible.In addition to current support measures, officials are examining a range of possible measures, outlined in this paper, to ensure that the economy is in a position to recover rapidly while maintaining a stable tax base.

The Programme for Government outlines, among other objectives, that a Commission on Welfare and Taxation will be established to independently consider how best the tax system can support economic activity and promote increased employment and prosperity. This Commission will review all existing tax measures and expenditures.

In addition, a Tourism Recovery Taskforce comprised of key stakeholders has already been established and will make recommendations on how best the tourism sector can adapt and recover. A number of these stakeholder groups have already called for changes in VAT for the wider tourism sector. When the Taskforce has finalised its recommendations they will feed into the National Economic Plan.

5. 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.

5.1 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 1 January) as VAT is paid two months in arrears.

Rate	1% increase/decrease
9% Reduced rate	+/- €7m
13.5% Reduced rate	+/- 281m
23% Standard rate	+/- €436m

5.2 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.

Zero rate increased	Yield
0% to 5%	€497m
0% to 9%	€894m
0% to 13.5%	€1,342m
0% to 23%	€2,286 m

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 behavioural changes, and should be read as indicative. A further caveat is that VAT for 2020/2021 is impacted by emergency tax warehousing measures.

5.3 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%	16.87%
9%, 13.5% and 23%	19.18%

5.4 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%	€1,268m	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%	€1,834m	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 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.

6.1 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	€27m	457
€2.5m	€51m	831
€2.75m	€72m	1140
€3m	€95m	1436

6.2 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.

7. Options: Responses to COVID-19 Challenges

7.1 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.

Specifically with regard to VAT, the zero rate of VAT was applied, on a concessional basis, on imports and on domestic supplies of personal protection equipment including facemasks, ventilators, thermometers, hand sanitisers and oxygen as necessary to combat COVID-19 when supplied to hospitals, nursing homes, GP practices and the like, for use in the delivery of COVID-19 related health care services to their patients. 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.

In response to the economic challenges presented by the Covid-19 virus, many countries acted by making VAT-related changes to support people and business - Appendix 2 sets out VAT responses by EU member states. Three broad themes emerge from the policy responses observed. These are:

1. A reduction of VAT rates in particular in respect of goods and services required to combat the virus;
2. Delayed VAT return deadlines and/or relief on interest on late payment of VAT returns;
3. Increased frequency or speed of VAT refunds.

As mentioned above, Ireland is bound by the EU VAT Directive, which restricts the measures available to it. By way of example, the standard rate of VAT must not drop below 15%. In this context, we can consider the measures available to Ireland within the themes outlined above - reduced rates, relief on VAT returns, and increased frequency of VAT refunds.

7.2 Policy Response Phases

When considering policy responses, two distinct phases can be identified. The first phase is related to the demands of the emergency situation. The second phase relates to the priorities of economic recovery that will follow.

Phase 1 – Immediate Responses

Relief relating to VAT returns

The Revenue Commissioners are engaging with customers with regard to any difficulties with their VAT returns. This engagement includes relief of interest on late payments of VAT in respect of returns during the pandemic. Further details are available on the Revenue Commissioners website.

Increased frequency of VAT refunds

VAT returns in Ireland are generally filed on a bi-monthly basis. Alternative frequency of filing is provided for but the trader must request authorization from the Collector General. One measure observed in different jurisdictions was the hastening of VAT refunds based on increasing the frequency of returns. A potential measure to effect this would be to increase the frequency of filing in Ireland from bimonthly to monthly. Revenue has advised to continue to file returns on time and engage early where difficulties are found.

Phase 2 – Responses for Economic Recovery

It should be noted that any policy responses taken will need to consider the appropriate timeframe to introduce the measure in question as well as set out the conditions or timeframe for the measure to cease.

Reduce Rates

The request from the sector has been for a return to the 9% VAT rate (or lower) for food, accommodation and similar goods and services. This is understandable as it has the advantage of being tried and tested and is associated with what is perceived as the successful implementation of the lower rate from 2011 to 2018.

Reduced rates have been considered in past crises, most recently with the reduction of the Second Reduced Rate of VAT from 13.5% to 9% in response to the economic downturn of 2008. The 9% second reduced rate was in place on a temporary basis from 2012 to 2018 for tourism related industries. 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. The main finding of the Department's Review is 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.

The purpose of reducing VAT rates is to lower prices and stimulate demand. Providing for a reduced rate of VAT in circumstances where restaurants and pubs are subject to considerable restrictions around social distancing, hygiene measures, continued limitations on travel, etc. may not be the most appropriate approach when capacity is reduced to a proportion of pre-crises levels at a time when there is likely to be pent up demand. In other words, the binding constraint on firms' revenue generation capacity is likely to be derived from public health restrictions, rather than a lack of demand.

Raise VAT registration thresholds

At present, the registration threshold for businesses paying VAT is €37,500 for services and €75,000 for goods, among the highest in Europe. This threshold is set by reference to inflation and would require both a derogation and agreement of all EU member states to change. In the event that the threshold was raised, it would remove a number of businesses from the VAT regime, and incur a corresponding loss of deductibility. While business would not have to file VAT returns, they would also lose the option of claiming VAT refunds.

Increasing the cash receipts basis threshold

There have been calls to increase the cash receipts basis threshold, whereby businesses with a current 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. At present, 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. There is a cash flow cost to the Exchequer in respect of any such increase.

In addition, it should be noted that this represents a derogation from normal VAT rules with about two thirds of eligible businesses benefitting. Further increases, particularly of the nature sought by some lobby groups of up to €10m, could give rise to concerns at EU level that Ireland was operating outside of the normal VAT regime.

Requested Measures from Industry

Apart from a requested increase in the cash receipts basis from €2 million, of up to €10 million, other requests for VAT measures include: an extension of current VAT relief measures (for an undefined period), extending the temporary zero rate of VAT on PPE to several professions, increased VAT credits, a 3% VAT rebate for invoices paid on time; ending the VAT exemption for coach transport; reducing the VAT rate on tourism to 0% for a period of 12 months, with a subsequent increase to 9% on a permanent basis, a moratorium on VAT payments, a reduction in the VAT rate on certain training courses, and a reduction of the standard rate of VAT.

A group of representative bodies called for a reduction in the VAT rate applied to hospitality, and its extension to sales of alcohol in the on-trade (pubs and bars) until 31 December 2020.

Council Directive 2009/47/EC amended the VAT Directive (2006/112/EC), allowing for Member States to provide for a reduced rate of VAT to alcoholic and non-alcoholic drinks when supplied as part of a restaurant or catering service.

In practice, this could give rise to different rates of VAT applying to the 'on' licence and 'off' licence sales by traders engaged in both, as some supplies of the same product would be liable to the reduced rate of VAT, and other supplies would be liable to the standard rate. This would create substantial scope for abuse and unfair competition on the part of non-compliant traders.

In addition to the challenges of defining and enforcing a workable distinction, if the supply of all drinks in an 'on' premises was defined as the supply of a restaurant or catering service this would bring sales of alcohol in nightclubs and the like within the scope of the reduced rate, which would be contrary to our general public health policy on alcohol pricing and consumption as well as contrary to current public policy objectives on social distancing during the pandemic.

Temporary Reduction of Standard Rate of VAT

The standard rate of VAT is being reduced, on a temporary basis, from 23% to 21%, from 1 September 2020 to 28 February 2021. The standard rate applies to some 53% of activity, including the supply of cars, petrol, diesel, alcohol, tobacco, electrical equipment and adult clothes and footwear. Taking the effects of social distancing requirements into account, as well as the uncertainty of future requirements in the context of public health objectives, the cost of this measure is estimated broadly. In this context, the total cost to the Exchequer is estimated at €440 million in total, €160 million in 2020 and €280m in 2021. This measure will provide a temporary aid to domestic trade, and reduce the amount of tax paid across a broad base.

8. VAT Developments at EU Level

8.1 Commission's VAT Action Plan 2016 and Tax Action Plan 2020

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. In this context, agreement has been reached on a range of proposals, most recently covering Administrative Cooperation, Modernisation of VAT on e-commerce, the VAT rating of e-publications, Quick Fixes to the VAT system, and the Generalised Reverse Charge Mechanism.

Files agreed at EU council level in 2019 include the Simplification for SMEs Proposal, the Payment Service Provider Proposals, and a proposal on the VAT treatment of Defence Efforts. The two outstanding proposals that remain are: 1) the reform of VAT Rating proposal and 2) the proposal on the Definitive VAT system for cross-border B2B trade.

The Tax Action Plan published by the Commission on 15 July 2020, set out a number of objectives with regard to VAT. These objectives are – facilitating compliance, easing administrative burden, and increasing the competitive power of the EU. Proposed reforms look to address the VAT treatment of Financial Services, the Travel Agents Special Scheme, the VAT treatment of the Platform economy, a simplification of passenger transport rules, a move towards comitology in decision making with regard to VAT, and automated data transfer for anti-fraud purposes.

8.2 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 and comes into effect 1 January 2021. 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. This is currently subject to review in the first half of the year.

8.3 Simplification for SMEs

Published on 18 January 2018, the “Simplification for SMEs” proposal provides for simplified VAT measures for small to medium enterprises (SMEs). VAT compliance costs across Europe 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 1 January 2025.

The main provisions of the proposal relate to the opening up of the national VAT registration thresholds for SMEs to all EU eligible businesses; establishing a new maximum level and transitional period for national registration thresholds; and the introduction of simplified VAT obligations for exempt SMEs in the areas of registration, VAT numbers and VAT returns. The proposal was the subject of technical discussions from March 2018 and was ultimately agreed at ECOFIN in February 2020.

8.4 Payment Service Providers

Proposals were published in December 2018 and agreed in February 2020 to assist member states in tackling e-commerce VAT fraud by strengthening the cooperation between tax authorities and payment service providers (PSPs), and imposing record keeping obligations and information sharing requirements on PSPs in respect of cross-border payments. These proposals 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 Commission database for this information, to allow for information sharing within Eurofisc and between Member States.

8.5 VAT on Defence Efforts

This proposal, published in April 2019, aims to ensure the same VAT and excise exemptions that exist across the EU in respect of NATO are mirrored for armed forces deployed outside their Member States when they take part in defence efforts under the Common Security and Defence Policy (CDSP).

There is an exemption in the VAT Directive and Excise Directive for supplies to the armed forces of any state party to the North Atlantic Treaty taking part in a common defence effort outside their own state. This proposal aligns the tax treatment of NATO defence efforts with EU defence efforts. The proposal was agreed in December 2019 and comes into effect 1 July 2022.

8.6 Quick Fixes

The quick fixes originally formed part of the definitive VAT package published in October 2017 and comprise technical changes to the current VAT regime. The purpose of the quick fixes was to ensure a harmonized application of certain simplification measures, and to introduce new requirements for the zero-rating of intra-Community supplies. The four areas of change relate to a) application of zero-rating for intra-Community supplies b) chain transactions c) call-off stocks and d) proof of intra-community supply.

Following negotiations under the Austrian presidency, the Quick Fixes were adopted by Council in October 2018 and came into force from 1 January 2020.

Outstanding EU Proposals

8.7 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 between Member States. 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 (in Annex 3 of the Directive) 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 a wider set of goods and services but introduces a list of goods and services which must be charged at the standard rate – a "negative list." The purpose of the negative list is to ensure the application of a standard rate to supplies where there may be a risk of distortion of competition.

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 a weighted average VAT rate of over 12%.

The file has been presented to the European Council at working party level, and a proposal for the retention of a "positive list" has been mooted. This suggestion modifies the current system and somewhat expands its scope. As regular Council discussions have yet to commence on the proposal as a whole, a decision has not been made on the use of a positive or negative list. Discussions on the file are likely to take some time.

8.8 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. The proposal changes the place of supply of B2B cross-border goods to the Member State of the consumer. 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 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 been slow. 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, but discussions throughout 2019 generally focused on the other proposals outlined above.

Discussions on this file will continue at EU level, focusing on the introduction of accompanying measures to support the eventual introduction of a definitive regime and expanded OSS. It is likely that any changes made will relate to improving the functioning of the current VAT system, supported by technology.

9. VAT Developments at Domestic Level

9.1 Brexit

Overview and the Irish Protocol

At the end of the transition period, the UK 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. However, the Protocol on Ireland/Northern Ireland included in the European Union and the United Kingdom 2019 Withdrawal Agreement to avoid a hard border on the island of Ireland, provides that for VAT purposes, Northern Ireland will be treated as an EU Member State and not as a "third country".

Regardless of the Protocol, a number of measures were included in the Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019, enacted in March 2019. The measures therein formed a significant part of the Government's preparations for a "no deal" exit, and will still be required to recognize the reality of the Withdrawal Agreement, to ease the administrative and cash-flow burdens for businesses that will occur at the end of the transition period and to protect the Exchequer against fraud. The measures will be included in an Omnibus Bill, similar in design and purpose to that enacted in 2019 in the event of a disorderly withdrawal. The Bill will focus on methods to protect Irish citizens in supporting the economy, enterprise and jobs, particularly in key economic sectors.

Details of specific VAT-related measures with regard to Brexit may be found in the separate paper: "Brexit Readiness – Taxation and Customs Issues"

9.2 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.

Following 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%

Claims in respect of the year 2019 must be submitted between 1 January and 30 June 2020 in accordance with the legislative provisions. However, the impact of the Covid-19 pandemic on the charity sector and concerns raised by charities about their ability to access their offices in order to compile and make claims under the scheme by the 30 June deadline, led to a request to extend the closing date to 31 August 2020. This was accepted by the Revenue Commissioners and the new August deadline now applies.

9.3 VAT treatment of Food Supplements

Shortly after the introduction of VAT, the zero rate of VAT was allowed by the Revenue Commissioners to be applied to certain food supplement products (vitamins, minerals and fish oils). This concessionary approach expanded as the market developed over the years and resulted in the zero rating by Revenue of further similar products, including products other than vitamins, minerals and fish oils.

The scope of this concessionary approach broadened progressively over time to the point that it had become increasingly difficult to maintain an effective distinction between food supplement products that could benefit from the zero rate and those that were standard rated. This led to diverging and inconsistent practices as well as confusion among traders.

Following complaints from the Irish Health Trade Association (IHTA), Revenue conducted a comprehensive review of the VAT treatment of food supplement products, including getting an expert report on the definition of food for the purposes of the VAT Consolidation Act. The expert prepared a detailed, scientific report that concluded that food supplement products are not conventional food. Based on the expert report and its own legal analysis, Revenue concluded that the status quo was no longer sustainable.

Following the review, Revenue engaged with the Department concerning policy options that might be considered in the context of Finance Bill 2018. The relevant legislation was not changed in Finance Bill 2018 and therefore Revenue issued new guidance in December 2018 which removed the concessionary zero rating of various food supplement products from 1 March 2019.

Following representations from Deputies and from the industry, the Minister for Finance wrote to Revenue outlining his plans to examine the policy and legislative options for the taxation of food supplement products in the context of Finance Bill 2019. Revenue responded by delaying the withdrawal of its concessionary zero rating of the food supplement products concerned. This allowed time for the Department to carry out a public consultation on the taxation of food supplement products.

The public consultation ran from 18 April to 24 May 2019 and sought input from a wide range of interested parties, including from health and nutrition experts and the Minister for Health. In total, 121 submissions were received. This included submissions from individuals, businesses, lobby groups and a political party. The results of the consultation were included in the 2019 Tax Strategy Group paper on VAT.

Provision was made in Finance Bill 2019 to apply the 13.5% rate of VAT to all food supplement products, which came into effect from 1 January 2020. Foods for specific groups such as infant follow-on formulae and infant foods, foods for special medical purposes and specially formulated foods (e.g. total diet replacement for weight control) remain zero rated. These are well established and defined categories of food that are essential for vulnerable groups of the population. Fortified foods, such as yoghurts and cereals fortified with vitamins and minerals, will also remain zero rated as they are food.

Folic acid, vitamin and mineral products for human oral use which are licenced or authorised as medicines by the Health Products Regulatory Authority ('HPRA') remain zero rated under a different VAT provision.

10. 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. The Department of Finance is a member of the Period Poverty Working Group led by the Department of Health in conjunction with the National Strategy for Women and Girls. The subject of reducing the VAT rate on newer period products forms part of the discussions.

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 2020

Appendix 1

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	-
Average			**7.3 / 10.6**	**21.5**	

Appendix 2

Coronavirus VAT Measures in EU Member States

Member State	Measure / Theme	Detail
Austria	VAT Return Delay/ Late payment Interest Relief Reduced Rate(s)	VAT returns and interest on late payments deferred, annual returns pushed back to August 31. Non-alcoholic Drinks Moved from Standard rate of 20% to 10%. Cash Receipts Basis threshold increased from €255,000 to €400,000 per annum.
Belgium	VAT Return Delay/ Late payment Interest Relief Reduced Rate(s) Increased Frequency of VAT refunds	Tax can be paid in instalments, late payment interest relief and deferral for 2 months. Temporary measures to allow VAT free gifts to allow gifts of medical equipment to specified healthcare institutions. Increased speed of VAT Refunds for returns received by 24 May. Restaurant, Catering and café services reduced to 6% until December 2020.
Bulgaria	Reduced Rate(s)	Reduction of VAT on Catering services from bars, cafés and restaurants from 20% to 9% until

		end December 2020.
Croatia	VAT Return Delay / Late payment Interest Relief Reduced Rate(s)	3 month VAT payment deferment, with the option of further 3 months if required. Introduction of cash receipts basis, and option for deferral of payments for businesses with a drop of 20% or more of Revenue, for March and April returns. Reduced rate of VAT on food to 13%.
Cyprus	VAT Return Delay / Late payment Interest Relief Reduced Rate(s)	2 month VAT payment deferment, without interest. 31 March VAT returns delayed until 10 November 2020. Some taxpayers moved from quarterly to monthly returns to make advanced VAT payments up until 30 June 2020. Q2 VAT Payments Delayed VAT on accommodation and catering services from 9% to 5%. Temporary reduction of the Standard rate from 19% to 17% for the months of April and May 2020, and Reduced rate lowered from 9% to 7% from 1 April to 15 July 2020.

Czech Republic	VAT Return Delay / Late payment Interest Relief Reduced Rate(s)	2 month VAT payment deferment Fines for late filing between 1 March and 31 July 2020 will be automatically waived. Delayed filings are administratively allowed. Reduced VAT rate on accommodation, sport and cultural events.
Denmark	VAT Return Delay / Late payment Interest Relief	VAT payment deadlines extended Q1 and Q2 Returns may be consolidated and filed by 1 September 2020. Interest-free loan of 2019's paid VAT, repayable by 1 April 2020. Further delayed VAT payments for larger taxpayers.
Estonia	VAT Return Delay / Late payment Interest Relief	VAT payment deferment until 1 May 2020.
Finland	VAT Return Delay / Late payment Interest Relief	Reduced interest on late payments until 31 August 2020. (4% instead of 7%) Loan of VAT paid on returns in 2020, 3% interest.
France	Increased Frequency of VAT refunds VAT Return Delay / Late payment Interest Relief	Increased Frequency of VAT refunds filed electronically. Extended deadlines for non-EU businesses to submit claims

		VAT returns discounts for April/May
Germany	VAT Return Delay / Late payment Interest Relief Reduced Rate(s)	VAT payment deferment available to business upon application until December 2020 The standard VAT rate has been reduced from 19% to 16% and the reduced rate from 7% to 5% until the end of 2020 Reduced VAT on catering food services from 19% to 7% from 1 July 2020 to 1 July 2021.
Greece	Reduced Rate(s)	VAT reduced from 24% to 6% for Coronavirus aid products. VAT on transport and ferries, hotel and accommodation reduced to 13%. Manufacturing of antiseptics for Ministry of Health are VAT exempt (but input VAT remains deductible). VAT rate on public transport, coffee supplies and non-alcoholic drinks, and cinema tickets will be reduced from 24% to 13% from 1 June and 31 October. VAT reduced to 6% on music books and admission to sports events (13%) until 30 June 2021. The VAT rating of a range of goods, including medical, high-sugar content drinks, domestic heating and electricity, and paper books

		have been reduced to 13% and 6% between 1 June and 31 October 2020.
Greece	VAT Return Delay / Late payment Interest Relief	May VAT payment deferment until 30 September 2020. VAT payers who do not lay off staff may withhold 25% of their VAT due in April. This may be allocated to the June payment upon application. Taxpayers who do not avail of the 25% VAT discount on liabilities may extend payment deadlines to 30 September.
Hungary	VAT Return Delay / Late payment Interest Relief	VAT payment deferment (upon application, for a fee)
Hungary	Increased Frequency of VAT refunds	Shortened the VAT credit period from 75 days to 30 days for small and medium sized businesses (SME)
Ireland	VAT Return Delay / Late payment Interest Relief Reduced Rate(s)	VAT payment deferment for Businesses under €3m. Interest deferment on June/July 'Warehousing' of VAT and other tax debts Concessional zero-rating of import and supply of PPE Temporary reduction in Standard Rate of VAT from 23% to 21% from 1 September 2020 to 28 February 2021

Italy	VAT Return Delay / Late payment Interest Relief	Delays on VAT returns for April/May Extended VAT return deadlines for non-established businesses. Staged payments on VAT liabilities: Four monthly instalments of 50% of the liability payable between September and December 2020. Twenty four monthly instalments for the remaining 50% until December 2022.
Latvia	Increased Frequency of VAT refunds	Increased refunds within 30 days, and refund of excess inputs previously carried forward
Lithuania	VAT Return Delay / Late payment Interest Relief	VAT payment delays of up to one year Extended deadline for VAT reclaims for non-EU businesses to 30 September 2020
Luxembourg	VAT Return Delay / Late payment Interest Relief Increased Frequency of VAT refunds	Extension of deadlines for submission of VAT returns and associated VAT payments Suspended penalties on delayed filing Excess input VAT credits below EUR 10,000 will be reimbursed immediately Postponement of VAT payments reaching back to beginning of the crisis – upon application

Malta	VAT Return Delay / Late payment Interest Relief Increased Frequency of VAT refunds	Initial two month VAT payment deferment (for Hospitality, Tourism and Manufacturing industries) March to August VAT payments deadline extended to 31 May 2021. Increased speed of VAT refunds to improve liquidity
Netherlands	VAT Return Delay / Late payment Interest Relief	3 month VAT Return Delay for businesses who make contact and demonstrate hardship Option for certain businesses to change to monthly returns Late penalty interest charge halted until 1 October 2020
Poland	VAT Return Delay / Late payment Interest Relief Reduced Rate(s)	Taxpayers may apply for deferred payment of VAT, including payment in instalments or waiver of arrears Delayed entry into force of certain VAT reforms to July 2020 COVID-19 related domestic supplies are zero-rated July VAT return delayed until 20 September 2020. Payment may be deferred until 25 September 2020.
Portugal	VAT Return Delay / Late payment Interest Relief	VAT payment deferments, extended deadlines

	Increased Frequency of VAT refunds Reduced Rate(s)	VAT credits for SME's refunded within 15 days of submission of VAT return VAT on gyms and health clubs reduced to 6%
Romania	Increased Frequency of VAT refunds	Accelerated repayments, ongoing debt collections paused VAT due until 25 October 2020 are paused without charges or interest. VAT credits for the same period will be repaid immediately for taxpayers with a good compliance record
Slovakia	VAT Return Delay / Late payment Interest Relief	VAT (Tax) return deadline extension and removal of interest fees Non-resident businesses can apply for the same deferments as above
Slovenia	VAT Return Delay / Late payment Interest Relief	VAT payment delay on application
Spain	VAT Return Delay / Late payment Interest Relief	VAT payment delay for 6 months, on application, to a maximum of €30,000 – companies below €6m turnover
Sweden	VAT Return Delay / Late payment Interest Relief	Three months of VAT payments between January and September 2020 can be deferred for up to 12 months, with interest Businesses with a turnover below €291,000 can opt for cash basis

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