KPMG

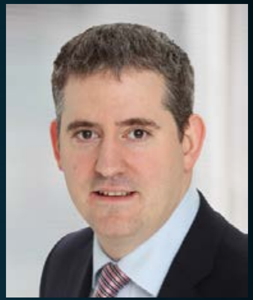
Lunch & Learn

Building Tax Knowledge

Preparing for the VAT rate change
and cash flow enhancements

Thursday, 30 July

Your Partner For What's Next



Glenn Reynolds
Partner Head of Indirect Tax – VAT & Customs
KPMG in Ireland

t: +353 1 410 1371
m: +353 87 744 1371
e: glenn.reynolds@kpmg.ie

John Curry
Director Tax Transformation & Technology
KPMG in Ireland

t: +353 1 700 4242
m: +353 87 050 4242
e: john.curry@kpmg.com

Finbarr O'Connell
Director Indirect Tax – VAT & Customs
KPMG in Ireland

t: +353 1 700 4492
m: +353 87 050 4492
e: finbarr.oconnell@kpmg.ie

Ethna Kennon
Director Indirect Tax – VAT & Customs
KPMG in Ireland

t: +353 1 410 1703
m: +353 87 744 1703
e: ethna.kennon@kpmg.ie

What will we cover today?

The VAT rate change

- Who will be impacted by the change?
- How should you prepare for the VAT rate change – an overview of the issues that you may need to consider
- What systems changes will need to be implemented before 1 September?

Warehousing of VAT debts

- Brief overview of the measures relating to the deferral of VAT liabilities and the ‘warehousing’ of such debts

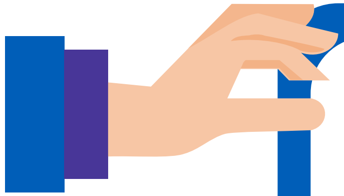
VAT cash flow enhancements

- Areas to consider and focus on maximise VAT cash flow and savings

Questions and answers session

VAT rate change - overview

VAT rate change



What is changing?

- Temporary reduction of the standard rate of VAT from 23% to 21%
- Applies from 1 September 2020 until 28 February 2021
- Standard rate of VAT applies to a wide range of goods and services including for example, the sale of motor vehicles, adult clothing, alcohol, electrical goods, most household goods, non-basic food stuffs, many e-services, professional services and telecommunications
- First change to the standard rate since 2012 (increased to 23% from 21%).

What is not changing?

- No change to any other rate of VAT (i.e. 13.5%, 9% or 0%) or VAT exemptions
- 13.5% rate will continue to apply to many activities in the tourism and hospitality sector such as meals in a restaurant, hotel accommodation

VAT rate change - government policy

- Cost of increasing or decreasing the VAT rates by 1% -

Rate	1% increase / decrease
9% reduced rate	+/- €9 million
13.5% reduced rate	+/- €345 million
23% standard rate	+/- €450 million

Source: Department of Finance Tax Strategy Group – VAT policy document July 2019

- Government did not follow the approach applied in 2011 and introduce a targeted cut to the hospitality and tourism sector (moved from 13.5% to 9% in 2011) but did introduce a stay and spend tax credit.

- Note EU VAT rules prohibit the application of a reduced rate to many products e.g. alcohol. so limits the ability to apply pick and choose in certain sectors.

VAT rate changes in other countries

Reduction in VAT rates

- Germany: temporary reductions in both standard rate (19% to 16%) and reduced rate (7% to 5%) from 1 July to 31 December 2020
- UK, Austria, Belgium, Bulgaria, Greece, Lithuania, Cyprus, Czech Republic – targeted temporary VAT rate cuts in particular sectors, generally hospitality (e.g. accommodation, restaurants, transport)
- Some non-EU countries have also announced that temporary VAT (or similar tax) rate reductions are being introduced or are being considered, for example, Colombia, Kenya, Malaysia, Mexico, Costa Rica

Increase in VAT rate

- Saudi Arabia increased VAT rate from 5% to 15% with effect from 1 July 2020

Ireland's standard VAT rate in the context of the EU

Where does Ireland rank?

- Lowest rate is Luxembourg – 17%
- Highest rate is Hungary – 27%
- 23% VAT rate – Ireland joint 7th highest rate (along with 2 other countries)
- 21% VAT rate – Ireland joint 10th highest rate (along with 6 other countries)
- Average rate was 21.5% on 1 Jan 2020
- No other countries announced changes to standard rate other than Ireland and Germany
- Ireland has narrower standard VAT rate base than other EU countries – reduced rate / 0% rate applies to sizable proportion of economic activity in Ireland
- The standard rate VAT differential between Ireland and the UK will narrow to 1 percentage point from 1 September (currently at 3 percentage points since and was at a high of 6.5 percentage points in 2009)

VAT rate change - Issues to consider

VAT on sales when the rate changes

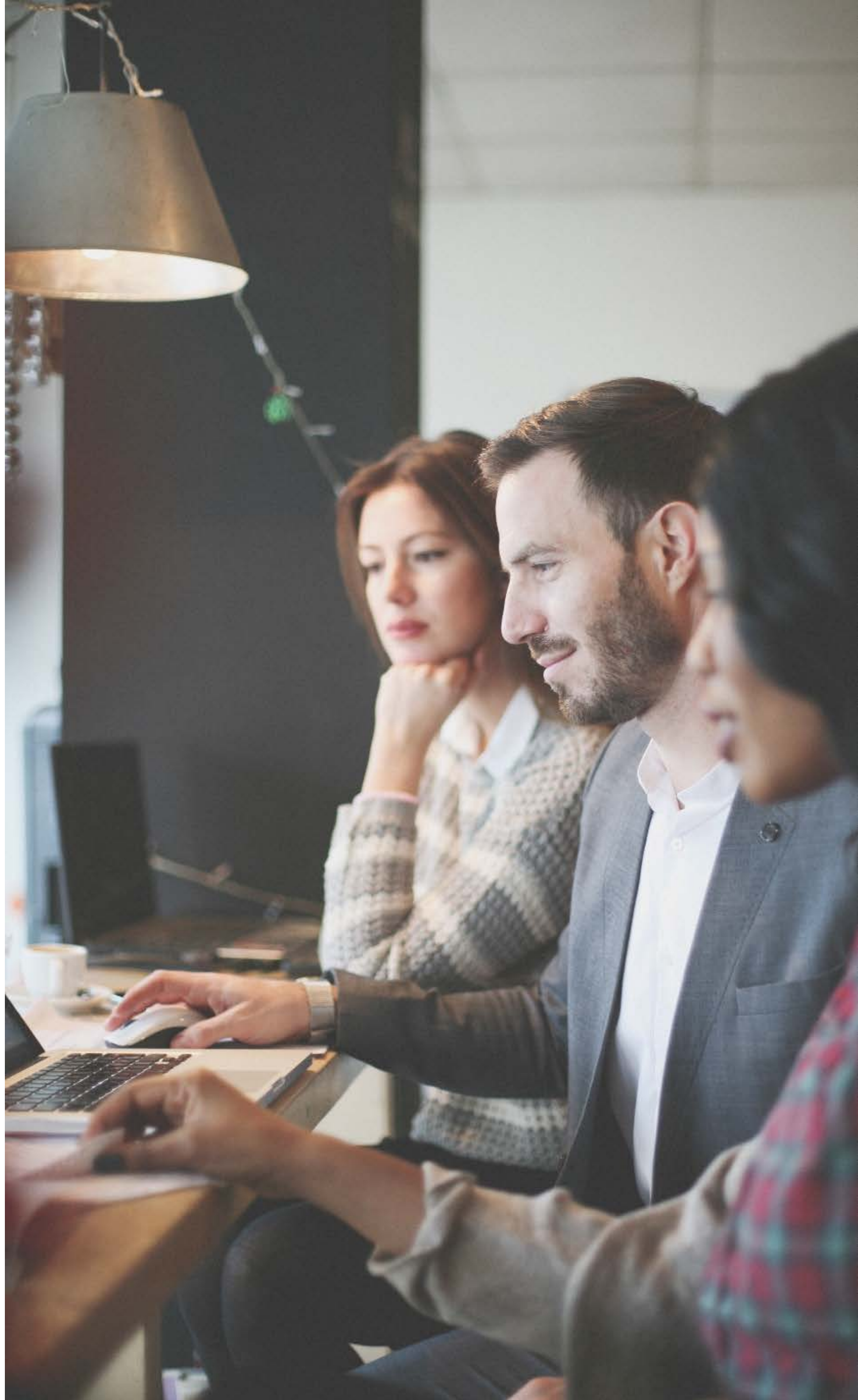
- Which VAT rate applies (23% or 21%) will depend on a number of factors:
  - The date of supply of the goods/services
  - The date a VAT invoice is issued (or should have been)
  - The date of receipt of early payment
  - Application of “invoice basis” V “cash-receipts” basis

- B2B supplies (i.e. where a VAT invoice is required to be issued)
  - VAT rate in force at the time the invoice is issued (or required to be issued). This applies even if the goods or services were supplied before the VAT rate change

  - <u>Example:</u> goods are supplied in August 2020
  - Invoice is issued on 31 August 2020 – VAT at 23% should be charged
  - Invoice is issued on 1 September 2020 – VAT at 21% should be charged

- B2C supplies (i.e. where a VAT invoice is not required to be issued)
  - the VAT rate to be applied is the rate in force at the time the supply of the goods/services takes place

- Where a supplier operates the “cash receipts” basis of accounting, the VAT rate applicable is the rate in force at the time of the supply



Payments in advance (e.g. deposits)

Payments received before the underlying goods or services are supplied

- Where a payment is received before the goods or services have been supplied, a “supply” is generally deemed to have taken place at the time of receiving the payment & VAT is due on that advanced payment
  - Where an invoice is required to be issued in respect of the advance payment (e.g. B2B sale), the VAT rate applicable is the rate in force at the time the invoice is issued (or is required to be issued)
  - Where the advance payment is received and a VAT invoice is not required (e.g. B2C sale), the applicable VAT rate is the rate in force at the time the advance payment is received
  - Where the supplier operates the “cash-receipts” basis of accounting, the applicable VAT rate is that in force at the time the advance payment is received

Credit notes

- B2B - Where a credit note is issued to a business customer on or after 1 September 2020, the VAT rate to be reflected on the credit note is the rate that was in force at the time the original invoice was issued

  <u>Example:</u>

  - Invoice issued in August 2020 charging VAT at 23%
  - Credit note in respect of this supply issued in September 2020 – the credit note should also reflect the 23% VAT rate

- B2C – a credit note should not issue where a VAT invoice was not originally issued. If a VAT invoice was issued, then the VAT rate to be reflected on the credit note is the rate that was in force at the time of the original supply of the goods/services

Purchases (Irish & Non-Irish)

- Invoices from Irish suppliers – correct rate of VAT being charged?

- Goods from EU-based suppliers (Intra-Community Acquisitions)
  - In month following receipt of goods
  - On date of issue of invoice if earlier

- Services from non-Irish suppliers (EU and non-EU)
  - Interaction of when VAT due to Revenue and what VAT rate applies
  - Generally based on time of supply of service
  - Usually refer to invoice date (or payment date if no invoice)

- Likely to be most relevant for VAT-exempt / partially-exempt businesses (such as financial services entities)

Other issues to consider

Pricing	This is particularly relevant for: (i) Businesses who set their prices on a VAT-inclusive basis (such as retailers), and (ii) Businesses with customers who have limited VAT recovery
Contracts	Do existing contracts state prices on a VAT-exclusive or VAT-inclusive basis? Is engagement needed with suppliers or customers?
Continuous supplies (e.g. rent)	VAT rate generally determined at the time the invoice is issued. Specific rules cater for certain utility (gas, electricity, telecoms) suppliers
Annual VAT documents with monthly schedules	Relevant to certain industries (such as leasing) – documents need to be updated?
Exempt / partially-exempt businesses (such as financial services entities)	If your business cannot fully recover VAT on costs incurred, can you maximise the benefit of the VAT rate reduction? Relevant for costs incurred from Irish and non-Irish suppliers
Direct debit	If a business pays VAT to Revenue on a monthly direct debit basis, should the amount be reduced in light of the VAT rate decrease?

Other issues to consider

Import guarantees	If a business has an import VAT deferment account, can the level of bond or guarantee be reduced to take account of lower VAT import payables?
Products / Services impacted	Need to ensure all relevant items are identified (e.g. are any blended rates used for mixed supplies etc.)
Non-Irish businesses	Many businesses established outside of Ireland will be affected by the VAT rate change, such as: - B2C suppliers of electronically supplied services, broadcasting and telecom services - “Distance Sellers” who exceed the Irish threshold

VAT rate change - Systems update

Systems and processes

Which systems are impacted?

— Retail/POS
— Expenses
— ERP system
— Payables
— VAT reporting software
— MS Excel work papers

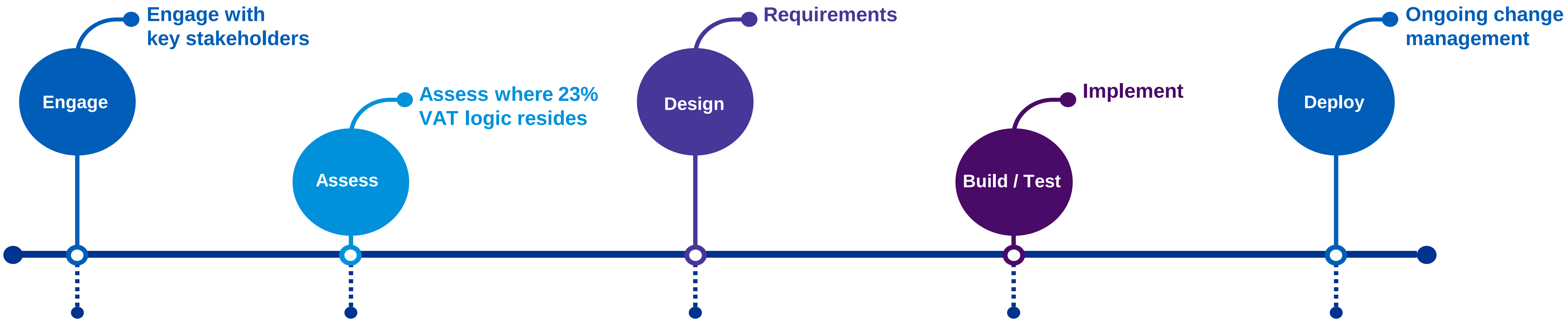
How are impacted products/services classified/taxed?

— By a product level flag?
— By a merchandise class or grouping?
— Do they link to underlying tax codes/ rates in the system?
— How does the rate change impact the sales price?
— What about bundled goods/service at multiple rates?
— How does this feature on receipts / invoicing?

Other considerations

— How will you manage cut-over and time of supply issues?
— How do you test pre go-live?
— How do you deal with supplies that bridge the period?
— What are the Interdependencies on systems and processes?

Suggested next steps



Engage

- Need to engage with IT and other stakeholders on release / maintenance schedules.
- Systems development / maintenance freezes may impact future planning…

Assess

- Assess where 23% VAT logic resides in systems and processes, may include;
  - Order to cash
  - Procure to pay
  - Month end MS Excel templates / reconciliations
  - Invoicing / Receipts
- Watch out for system / process dependencies

Design

- Right size your answer depending on your business needs – do consider dependencies
- Understand VAT / tax technical considerations for this rate change
- May want to consider working capital modeling / impact
- Align these requirements with your "as is" infrastructure

Build / Test

- May include changes to;
  - Master data
  - System VAT logic
  - Invoicing (AP & AR)
  - Reporting
- May include a change management component, i.e. updates to job aids / procedures

Deploy

- Allocate additional time / resourcing to initial EOM processes
- Perform additional assurance testing

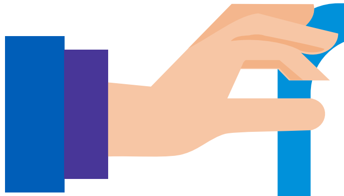
Warehousing of VAT liabilities

Revenue measures - debt management

Overview

- Debt collection and the charging of interest on late payments of VAT suspended in respect of January/February, March/April and May/June 2020 VAT periods for SMEs. An SME in this context is a business with turnover of less than €3 million which is not dealt with by either Revenue’s Large Corporates Division or Medium Enterprises Division. SMEs are managed from both a service and compliance standpoint by Revenue’s Business Division.
- Entities, other than SMEs, who are experiencing difficulties as a result of Covid-19 should liaise with Revenue on an individual basis to reach agreement with regard to the deferral of VAT payments
- All taxpayers should continue to file VAT returns in the normal manner

Warehousing of VAT liabilities



Overview

- On 2 May 2020, the Government announced that it will legislate to provide that Revenue will 'warehouse' deferred tax liabilities associated with the Covid-19 crisis
- Draft legislation issued on 24 July 2020 – new Section 114B to be inserted into VAT Consolidation Act 2010
- Revenue currently operating the arrangements on an administrative basis
- The scheme involves the effective 'parking' of the unpaid VAT liabilities that arose as a result of Covid-19 for a period of 12 months after the business has resumed trading and the application of a lower interest rate of 3% per annum after this time until the debts are paid
- Requirement to comply with all relevant compliance obligations may inadvertently lead to businesses no longer being considered eligible for relief due to innocent administrative errors.

Warehousing of VAT liabilities

Period 1

- Commences on the later of either (i) the first day of the taxable period immediately preceding the taxable period in which the business was adversely affected by Covid-19, or (ii) 1 January 2020
- A business is regarded as adversely impacted from the taxable period during which Revenue agreed to temporarily suspend collection of the Covid-19 liabilities in question
- Ends on the last day of the taxable period after the taxable period in which either (i) the business ceased to be subject to Covid-19 restrictions, or (ii) the business recommenced trading
- VAT liabilities built up during the period in which the business was unable to trade normally due to Covid-19, in addition to the two month period after the business recommenced trading
- No collection of VAT liabilities during this period
- No interest charged on unpaid VAT liabilities

Period 2

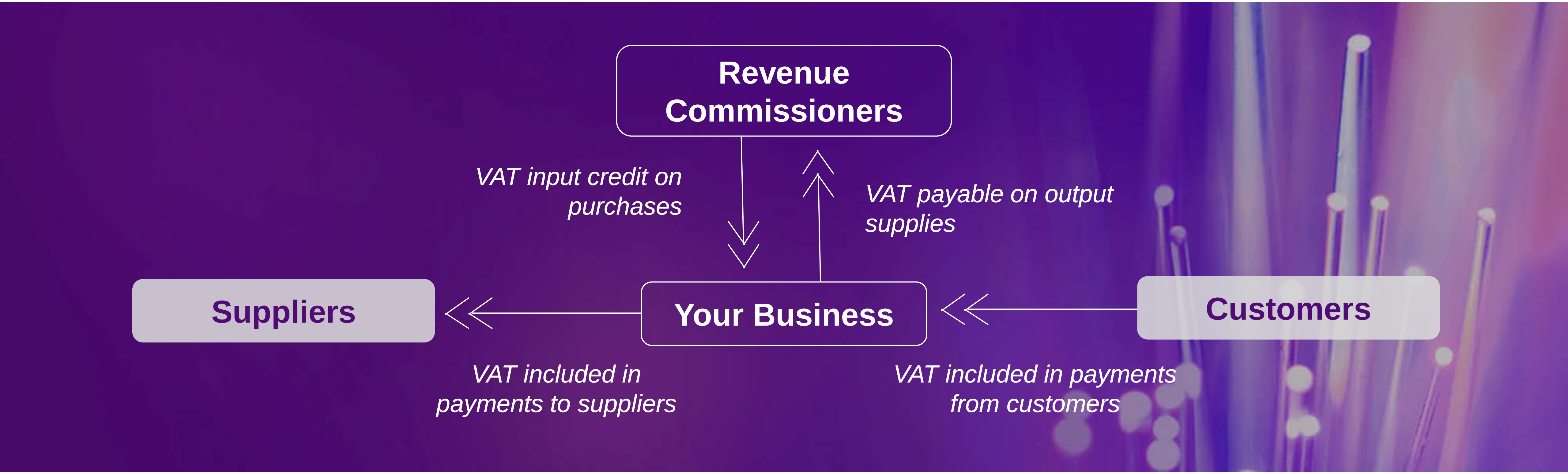
- Runs for a 12 month period after Period 1 has ended
- Period 2 can be extended by Ministerial Order (but no later than 31 December 2022)
- No interest charged on VAT liabilities relating to Period 1
- Taxpayers must pay current VAT liabilities as they arise

Period 3

- This will last from the end of Period 2 until such time that the VAT debts that arose during Period 1 are paid in full
- A reduced rate of 3% per annum (0.0082 per cent per day) will be charged on the VAT debts from Period 1 (compared to regular interest rate of 10% per annum)
- <u>Business is required to agree a payment plan with Revenue in advance of Period 3 in order to avail of the reduced 3% interest rate</u>

Maximising VAT cash flow position

Impact of VAT on working capital



- COVID-19 and the related shock to the global economy may cause a major cashflow challenge for businesses. In this context, effective management of VAT and other indirect taxes can potentially increase working capital
- The timing and quantum of VAT inputs and outputs can have a significant impact on your working capital position
- Simple changes, based on current best practice, can improve your working capital position

VAT cash flow enhancements

1 **Revenue measures** – Familiarise yourself with the VAT relieving measures that Revenue and other tax authorities have introduced for taxpayers

2 **Securing VAT refunds** – What steps can you take to secure VAT refunds as early as possible? File VAT returns early, engage with Revenue and have supporting documentation ready, offset against other tax liabilities?

3 **VAT operational processes** – Review processes and consider the following:

- Are you claiming the correct amount of VAT at the earliest time possible (e.g. parked invoices and accrued invoices posted after month end close)?
- Could changes to your procedures regarding timing of raising of invoices to your customers improve your VAT cash flow?
- Are you capturing all the VAT you are entitled to reclaim e.g. VAT on imports, employee expenses?
- Could you implement “self-billing” with your suppliers to help manage timing of receipt of VAT invoices?
- Overview of VAT throughput in the business?

VAT cash flow enhancements

4

Bad debts – Where certain conditions are met, it is possible to claim relief from VAT on bad debts where you have remitted the VAT to Revenue and have not been paid by your customer. Aged debtors listings and bad debt provisions should be monitored on a regular basis to identify if VAT relief may apply. Consider if accelerated bad debt relief claims can be implemented. Note you cannot issue a credit note for an unpaid debt unless you agree an adjustment/discount.

5

Retained deposits – Where a customer cancels its booking and the supplier has already accounted for VAT on the deposit, it may be possible to make an adjustment for this VAT amount where certain conditions are satisfied. Relevant in B2C cases.

6

Import relief from duty & VAT – Are you managing you import VAT and Duty process as efficiently as possible? Consider the availability of any deferrals and suspension regimes for VAT and/or customs duties arising on the import of goods into Ireland from outside the EU.

7

Other measures – Irish VAT law provides other measures for qualifying businesses which can have a positive VAT cashflow impact. These include:

- VAT group with related companies to alleviate cashflow on intra group supplies
- VAT56 authorisation
- Cash-receipts basis of accounting for VAT. There are limits €2 million turnover or mainly supplying non registered customers.

Q&A

Next in lunch and learn series - Managing your VAT process on 18 August 2020

home.kpmg/socialmedia

© 2020 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.