

BACKGROUND

The Government's July 2020 stimulus plan, among other economic supports, also contained a temporary reduction to the standard rate of VAT. This reduces the standard rate of VAT in Ireland from an amount of 23% to 21%, **BUT ONLY** for a period of six months from 1st September 2020 until 28th February 2021.

This is the first change to the standard VAT rate in Ireland since 2012 and is expected to result in a cost of €440 million for the period of the stimulus. It is aimed at providing a boost mainly to '**customer facing**' SMEs such as retailers and publicans etc., through encouraging increased demand, along with the additional opportunity of potentially retaining the VAT rate reduction.

PLEASE NOTE that the temporary VAT reduction within the stimulus package, will **NOT** impact the VAT treatment of most sales in the hospitality and tourism sector e.g. the existing VAT rate for restaurants, hotel accommodation etc., is already at the reduced VAT rate of 13.5% (**and will remain unchanged**).

IMPACT OF THE TEMPORARY VAT REDUCTION ON SMEs'

The temporary reduction in VAT means that most SMEs will need to consider how this change will impact on pricing, software and systems etc. within their business(es) from 1st September 2020 onwards (**and again when the scheme comes to an end on 28th February 2021**).

1. Are current sales invoices or customer prices VAT inclusive ?
2. If so, has there been a decision on whether the VAT reduction will be 'passed on' to customers, or will pricing remain at the same level (with the benefit of the VAT reduction retained) ?
3. Are there any business transactions that may 'cross over' the start date of the VAT reduction and for which action should be taken prior to 1st September 2020 e.g. the issue of credit notes, vouchers etc. ?
4. If the business is not able to recover all of it's input (or purchase) VAT, are there actions to be taken prior to 1st September 2020 ?
5. If the business is already mainly or wholly subject to the lower rate of VAT (13.5% or 9%), **then being aware that this change will have no impact !**

Where the VAT reduction will have an impact on the business (see above), then some of the typical actions that may need to be taken on or before 1st September 2020 will include the following:

- **Systems** – VAT rates on tax codes and any standardised sales items may need to be added to or amended within your accountancy software e.g. so that from 1st September all sales invoices automatically have the new 21% rate applied and invoices from suppliers can be input accurately
- **Timing** – consider if there are any customer transactions, in particular, that may be more sensible to resolve prior to (or after) 1st September 2020 e.g. credit notes for fixed fee amounts and/or any VAT inclusive transactions
- **Pricing** – if your pricing is VAT inclusive, consider whether you will be 'passing on' the VAT reduction to your customers (see 'Systems' issue above)