



AUDITORS, TAX &
BUSINESS ADVISERS

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NEWSLETTER

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Recent changes to VAT treatment of motor vehicles

Until recently the VAT legislation prohibited the taking of a VAT deduction for the purchase, importation, hire or lease of any passenger motor vehicle (except in very limited circumstances which are specified in the legislation).

However changes have been introduced to VAT legislation whereby, if certain conditions are met, Irish VAT registered businesses may be entitled to take a VAT deduction for 20% of the VAT incurred in respect of the purchase, hiring or importation of the car.

CONDITIONS

The conditions which must be met to avail of this relief are as follows:

1. The vehicle was first registered in Ireland after 1 January 2009 ;
2. The vehicle has a level of CO2 emissions of less than 156g/km (i.e. cars in categories A, B or C) ;
3. The vehicle is used at least 60% for business purposes (i.e. no VAT credit can be claimed where intended private use is greater than 40%).

POTENTIAL CLAW-BACK OF VAT

If a VAT deduction is taken on the purchase, importation or hire of a car and such car is disposed of within 2 years, the seller must repay some or all of the VAT deducted depending on the period of time the car was used. The amount of this claw-back is determined by a formula in the new VAT legislation.

Similarly, there will be a clawback of all or part of the amount deducted if the car is no longer used for business purposes, or is used for less than 60% business purposes, at any time within 2 years of purchase, importation or hire of the car. For practical purposes, the 60% business rule (condition 3 above) is to be examined every 6 months (up to 2 years from the purchase, importation or hiring of the car).

Alleviating the cash flow burden on tax costs - useful tips

In the current economic climate maintaining cash flow is of utmost importance to Irish business. Following are some practical tips to help you meet your tax liabilities on time without unnecessarily tying up cash.

Pay VAT on cash receipts basis.

By availing of the cash receipts basis of accounting for VAT, businesses can pay VAT as cash comes in, rather than on the basis of invoices issued to clients (irrespective of whether those invoices have actually been paid).

A VAT registered business can account for VAT on the cash receipts basis where the annual turnover (exclusive of VAT) does not exceed €1 million or at least 90% of customers are not VAT registered.

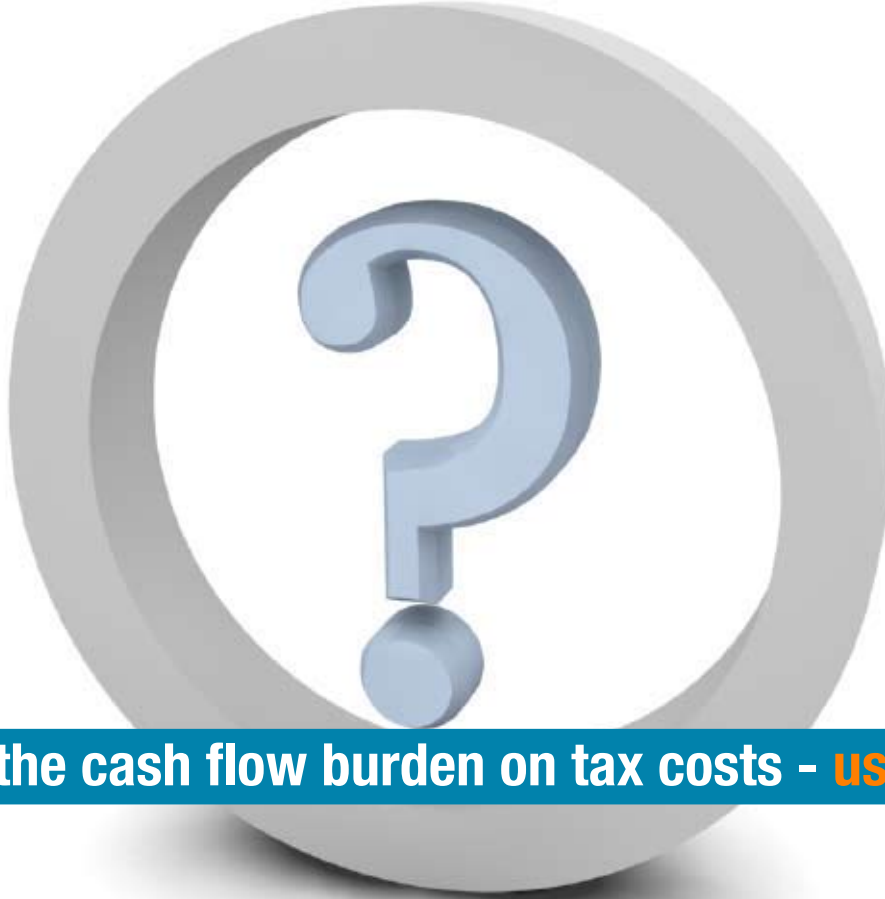
If you are entitled to account for VAT in this way but are currently using the invoice basis, changing to the cash basis could significantly ease the cash flow burden on your business. This is especially the case in the current climate where customers may be delaying paying invoices.

Any VAT registered person who is eligible to use the cash basis of accounting must apply in writing to the relevant Revenue district for authority to switch their method of accounting for VAT.



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Alleviating the cash flow burden on tax costs - **useful tips**

continued -

Adjust VAT direct debit arrangements

Many businesses are now experiencing a decrease in sales levels compared with previous years. Consequently VAT liabilities are also decreasing. Any business paying VAT by way of direct debit payments should ensure that such payments are revised to reflect the change in circumstances.

Relief for bad debts

Where a business has accounted for VAT but has yet to receive payment from its customer, and the debt is ultimately written off, bad debt relief can be claimed to recover the VAT previously paid (except where VAT was paid in respect of land or buildings). While a number of conditions must be met before the relief is granted, there is no minimum time that must elapse before relief can be claimed. Retrospective bad debt relief is possible subject to the general four year time limit.

Utilise the extension to payment deadline by using the pay & file electronic facility

Tax deadlines have been extended to the 23rd of the month where both returns are filed and tax liabilities are paid electronically. This extension applies to all taxes – corporation tax, VAT, Relevant Contracts Tax and PAYE/PRSI, as follows:

Value Added Tax : Filing date for Vat 3 Return, Filing date of Annual Return of Trading Details (RTD) and payment of VAT due

Employer PAYE/PRSI: Filing date of monthly form (P30), Filing date of annual form (P35) and payment of PAYE/PRSI due (including the income levy).

Corporation Tax: Payment of preliminary tax, filing of annual corporation tax return and payment of balancing corporation tax payment

Relevant Contracts Tax (RCT): Filing date of monthly RCT 30 Return, filing date of annual return RCT 35 and payment of RCT due

However, where a return and associated payment are not made electronically on or before the new extended deadlines, the extended time limits will be disregarded so that any interest imposed for late payment will run from the original deadlines and not the extended dates.

Have Some Questions? We Can Help

Our dedicated tax team is available to respond to any specific queries you may have regarding your tax affairs. If you have any queries please contact Mairéad O'Donnell at modonnell@fmaccountants.ie

Our newsletter will be issued every month to keep you up to date on the latest tax developments and planning opportunities available to you.

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