The Consultative Committee of Accountancy Bodies-Ireland

Chartered Accountants Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Institute of Certified Public Accountants in Ireland

47/49 Pearse Street,Dublin 2

Paschal Donohoe T.D.
Minister for Finance
Department of Finance
Government Buildings
Merrion St Upper
Dublin 2
D02 R583

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Potential to introduce the postponed method of accounting (VAT) in response to Brexit risks

Dear Minister,

I am writing to you on behalf of CCAB-I to request that the postponed method of accounting for VAT for importers be introduced into Irish VAT legislation in light of the impending departure of the UK from the EU. The introduction of such a measure would substantially ease the cash flow burden on Irish businesses and facilitate freer trade.

What is the postponed method of accounting?

For imports from outside the EU, importers must pay the VAT to the Revenue Commissioners at the time when the customs duties are paid rather than declare it at the time of filing their VAT returns. Imports from the UK will be treated in this manner once the UK leaves the EU and this will place a significant cash flow burden on Irish business at a time of already great uncertainty and upheaval.

A possible solution to this problem, at least for some traders, is the postponed method of accounting which is provided for in Article 211 of EU Council Directive 2006/112/EC.

Under postponed accounting, importers do not pay import VAT at the time the customs duties are paid, but must declare the payment of their import VAT in the next VAT return period and deduct the relevant input VAT in the same VAT return. The effect is comparable to the reverse charge mechanism for intra-acquisitions of EU goods where importers self-account for VAT and claim a simultaneous credit on the VAT return thus eliminating the cash flow disadvantage for the trader.

Exchequer Effect

The value of goods for VAT purposes includes the cost of goods, the related freight, insurance and the customs duty. Should the UK leave the EU on 29 March 2019, the VAT effect of this change in practice will take effect on 19 May 2019 when VAT returns and payments are due for the month of March 2019. A once off cash-flow adjustment for the exchequer will follow under this model.

On average, €3 billion[1] of goods are imported into Ireland from the UK during every two month VAT period. Examining the mix of these goods, we estimate that based on the current EU tariffs on imports from outside of the EU and current VAT rates in Ireland, approximately €600 million of VAT will be payable upfront by Irish importers on these goods without the postponed method of accounting. Based on the total VAT receipts in 2016, this amounts to only 4 percent of the total intake. Importers would then have to claim a credit for this VAT in the next VAT return which could be filed as much as 10 weeks later.

Under the postponed method of accounting, importers would defer payment of the VAT that would arise on 29 March 2019 and instead declare it on 19 May 2019 where they would take a simultaneous deduction on their VAT return, thus neutralising the VAT cash-flow effect.

From the exchequer perspective, only one VAT period would be affected by a change in method and the position would neutralise over the year. Had the UK not decided to leave the EU, VAT on imports into Ireland from the UK would be accounted for using the reverse charge mechanism for intra-community acquisitions. Therefore the exchequer is not disadvantaged by changing the VAT method.

We do not believe that anti-forestalling measures will be necessary to prevent importers delaying imports in or around March 2019 in order to take advantage of the postponed method as customs duties on imports from the UK will apply in any instance.

Adopted in 17 other EU Member States

17 EU Member States[2] such as Bulgaria, Poland and Romania have already adopted the postponed method of accounting into domestic legislation and we feel that an adoption of the

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[1] Brexit – Ireland and the UK in numbers , report by Central Statistics Office, December 2016

[2] Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Netherlands, Poland, Portugal, Romania,

provisions by Ireland would benefit Irish businesses greatly in light of the level of trade between Ireland and the UK.

The majority of EU countries that have adopted the postponed method of accounting have land borders with non-EU countries and trade with these countries. This highlights the importance of the method and will be paramount given the land border that we share with Northern Ireland.

Benefiting Business

In addition to the much needed cash flow benefit, it would also reduce the administrative burden for businesses and Revenue and could make Ireland more attractive for large companies who wish to set up a base in the EU. With the current threats imposed on Ireland by Brexit, this measure will go some way towards dealing with such risks.

We ask that you give this matter your immediate attention.

Yours sincerely

Paul Dillon, Chairman, CCAB-I Tax Committee