VAT Payments and Returns

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VAT 2018

Receipts

€14.2 billion in net receipts in 2018

(**25.7%** total tax receipts)

Average VAT rate **16.5%**

(weighted average on all goods & services)

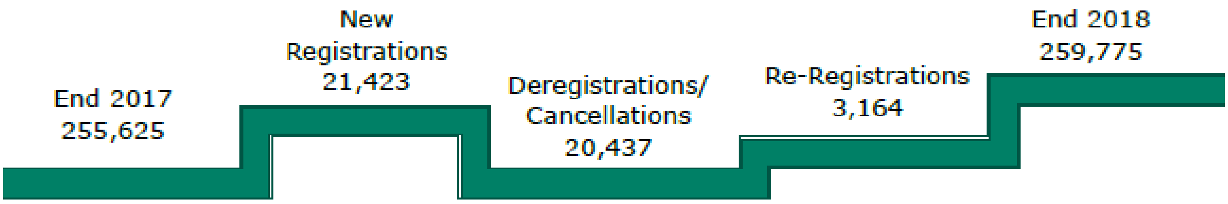
Standard rate = **75%** of tax take for VAT

Registrations

number of cancellations **20.5K**

number of registrations/ reregistrations **24.6K**

↑ **net increase of 4.1K**

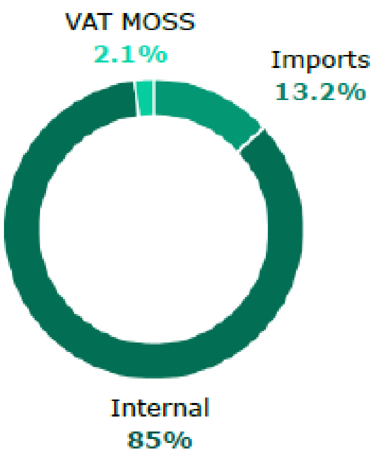


2% of traders = **35%** of receipts

Wholesale & Retail trade

45% of Receipts

18% of Traders



Executive Summary

Value Added Tax ("VAT") is the second largest source of tax receipts in the State, with €14.2 billion in net receipts collected in 2018 (25.7 per cent of total net tax receipts in the year). VAT is a critical part of Ireland's tax base, with strong growth in receipts recorded in recent years.

This report profiles trends in VAT registrations, returns, receipts and repayments.

The main features and trends noted in VAT include:

- Ireland currently operates five VAT rates: a standard rate (23%), two reduced rates (13.5% and 9%), a livestock rate (4.8%) and a zero rate. In addition, certain economic activities including financial services, health, education, public transport, sporting events and water supplies are VAT exempt.
- Of €62 billion personal consumption expenditure in 2016 (the most recent year with data available), 57 per cent was at the 23% rate.
- Expenditure at the 9% rate accounted for 14 per cent in 2016 but will reduce considerably with the removal of most activities from this rate in Budget 2019.
- Four sectors accounted for 60 per cent of active VAT traders in 2017: construction, wholesale & retail, professional, scientific & technical and accommodation & food.
- Of the three main sources of VAT, VAT internal (collected by traders supplying good or services within Ireland) is the largest source of receipts (€12.1 billion or 85 per cent of VAT receipts in 2018) and displays considerable seasonal fluctuations.
- VAT on imports from third (non-EU) countries is the second largest source of receipts (€1.9 billion or 13 per cent in 2018) and is the most volatile component in recent years.
- The VAT Mini One Stop Shop ("MOSS") scheme contributed €0.3 billion (or 2 per cent of receipts) in 2018, mainly through the retention fee applied on traders registered in Ireland to supply consumers in other European Union Member States.
- VAT repayments exceeded €5 billion in 2018, with a growth rate consistently exceeding that of payments in recent years.

Table of Contents

List of Tables

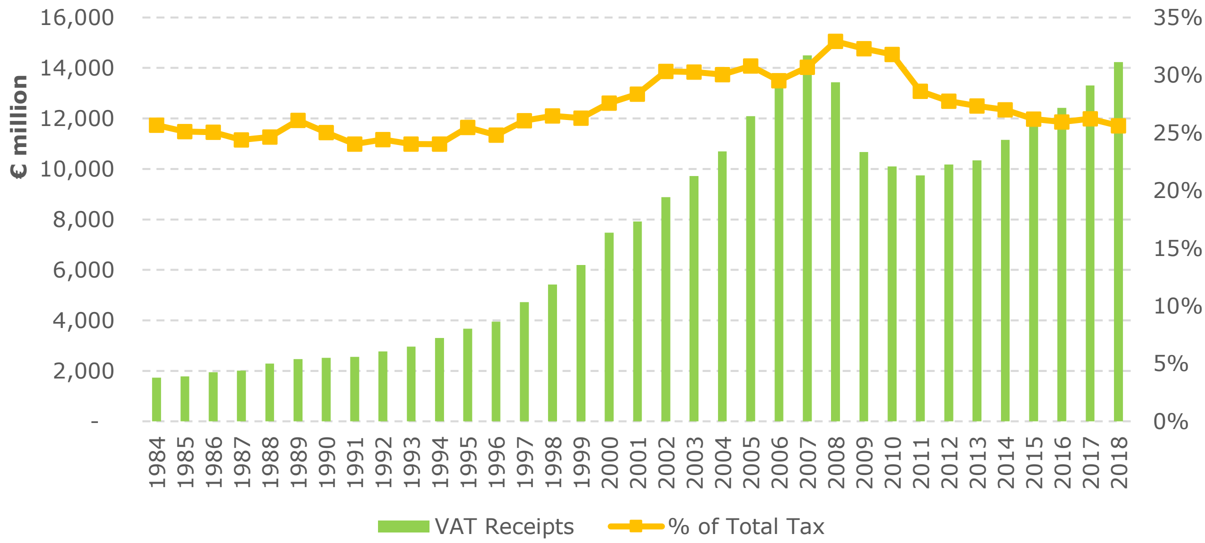
List of Figures

1 Introduction

Value Added Tax ("VAT") is a tax on consumer spending introduced in 1972 on Ireland's accession to the European Economic Community. VAT is the second largest source of tax receipts in the State (after Income Tax), with €14.2 billion in net receipts collected in 2018 (25.7 per cent of total net tax receipts in the year).[1]

As shown in Figure 1, following declines during the economic downturn, VAT receipts increased by 7 per cent on average per annum in the last five years. This is driven by increased consumption in the economy (there was also a rise in the standard rate of VAT from 21% to 23% from 1 January 2012). VAT is now close to the highest level recorded in 2007. The share of total tax receipts from VAT has fallen each year since 2008, with the exception of a small increase in 2017, but remains close to the level recorded in most of the 1980s and 1990s.

Figure 1: VAT Receipts



Source: Revenue analysis. Note: Based on Exchequer receipts of VAT.

This report profiles VAT, looking at the links between the tax and economic activity and reviewing registrations, returns, receipts and repayments across a number of breakdowns.

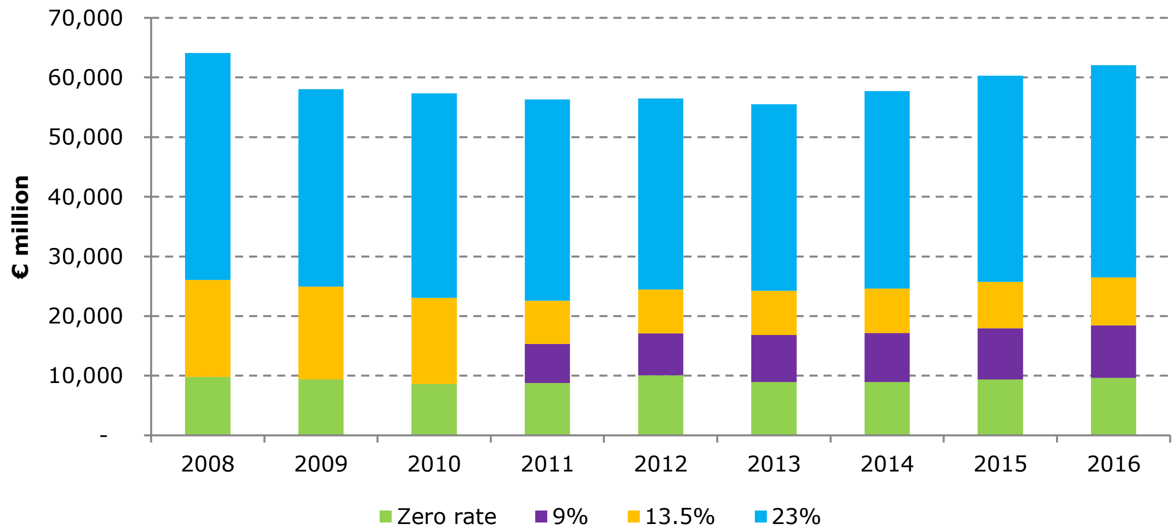
[1] Unless otherwise noted, "receipts" in this report refers to net receipts.

2 Overview of VAT

Ireland currently operates five VAT rates: a standard rate (23%), two reduced rates (13.5% and 9%), a livestock rate (4.8%) and a zero rate. In addition, certain economic activities including financial services, health, education, public transport, sporting events and water supplies are VAT exempt.

Figure 2 shows estimated personal consumer expenditure ("PCE") at the zero, reduced and standard rates.[2] Of €62 billion expenditure in 2016 (the most recent year with data available), the majority (57 per cent) was at the standard rate. Expenditure at 9% accounted for 14 per cent of PCE in 2016 but will reduce considerably with the removal of most activities from this rate in Budget 2019.[3]

Figure 2: Expenditure by VAT Rate



Source: Revenue analysis of Revenue and CSO data.

The weighted average VAT rate ("WAR"), calculated as the effective overall VAT yield expressed as a percentage on consumption across all the VAT rates is provided in Table 1. The impact of the introduction of the 9% VAT rate is observed through the reduction in the WAR in 2011, as is the increase in the standard rate to 23% in 2012.

[2] This estimate of PCE excludes expenditure on goods and services exempt from VAT, such as mortgage repayments and rent payments. The full CSO National Accounts estimate of PCE is €96.6 billion in 2016.
[3] Revenue analysis of activity at the 9% is published at: https://www.revenue.ie/en/corporate/documents/research/vat-9-rate-analysis.pdf.

Table 1: Weighted Average VAT Rate

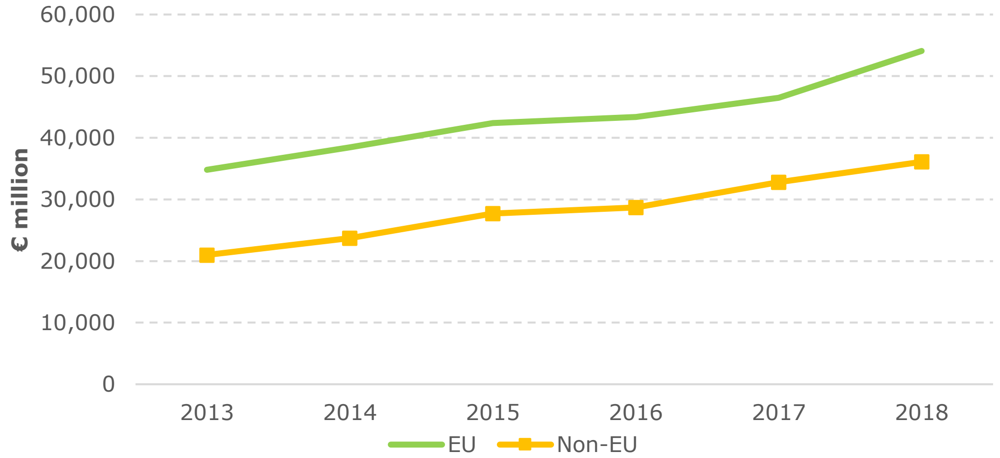
Year	WAR
2010	15.83%
2011	15.40%
2012	15.97%
2013	16.06%
2014	16.25%
2015	16.33%
2016	15.83%

Source: Revenue analysis of Revenue and CSO data.

Revenue collects VAT from three main sources. The largest share is collected by traders who in turn submit this VAT to the Revenue, typically deducting any VAT they have incurred in the course of their business. This VAT is referred to as "VAT internal" and the trader submits this liability in their VAT3 tax return.

The second largest source is VAT collected on goods imported goods from outside the European Union ("EU"). Imported goods from such third countries are liable to VAT at the same rate as applies to similar goods sold within the State.

Figure 3: Irish Goods Imports



Source: Revenue analysis of CSO data.

The third source is VAT collected on the supply of telecommunications, broadcasting and electronic ("TBE") services under the VAT Mini One Stop Shop ("MOSS") scheme. MOSS allows a TBE supplier to register, file a quarterly return and pay VAT in a chosen Member State. The supplier avoids having to register and account for VAT in all Member States to which they make TBE supplies. For the period 2015 to 2018, the Member State of registration retained a percentage of the VAT collected for other Member States.[4]

[4] 30% in 2015-2016 and 15% for 2017-2018 for the MOSS Union scheme. The Non Union scheme applies for taxable persons with no establishment within the EU and there is no retention fee in the non-Union scheme.

3 Traders and Returns

3.1 Registrations

Businesses/persons are typically required to register with Revenue for VAT where they supply taxable services or goods and where thresholds criteria are exceeded:

- €37,500 in the case of businesses supplying services only;
- €35,000 for taxable businesses making mail-order or distance sales into the State;
- €41,000 for businesses making acquisitions from other EU Member States;
- €75,000 for businesses supplying goods.

Businesses suppling taxable services or goods that do not exceed these thresholds can elect to register for VAT. Businesses/persons suppling VAT exempt services or goods are not required to register. Those engaged solely in agricultural production type activities are typically not obliged to register but can if they chose to do so.

The number of traders registered for VAT as of 1 December each year is provided in Table 2. The number increased between 2001 and 2008, then declined until 2013. This reversed from 2014, although the number of VAT traders in 2018 remains 10 per cent lower compared to the highest number recorded in 2008.

Table 2: Registered VAT Traders

Year	Number of Traders	*Growth*	Active Traders	*Growth*
2001	204,460	-	161,998	-
2002	212,191	*3.8%*	168,519	*4.0%*
2003	223,746	*5.4%*	178,878	*6.1%*
2004	238,608	*6.6%*	191,146	*6.9%*
2005	253,560	*6.3%*	206,323	*7.9%*
2006	271,893	*7.2%*	222,054	*7.6%*
2007	285,376	*5.0%*	230,697	*3.9%*
2008	287,154	*0.6%*	225,767	*-2.1%*
2009	276,220	*-3.8%*	210,360	*-6.8%*
2010	268,749	*-2.7%*	200,749	*-4.6%*
2011	258,807	*-3.7%*	193,938	*-3.4%*
2012	250,427	*-3.2%*	187,950	*-3.1%*
2013	245,245	*-2.1%*	185,183	*-1.5%*
2014	245,589	*0.1%*	186,724	*0.8%*
2015	249,598	*1.6%*	189,425	*1.4%*
2016	251,793	*0.9%*	193,379	*2.1%*
2017	255,187	*1.3%*	196,904	*1.8%*
2018	259,775	*1.8%*	*	*

Source: Revenue analysis. Note: *Some annual returns yet to be received for 2018.

A significant number of VAT registered traders are not actively trading. Table 2 also shows the numbers of VAT registered traders who, based on regular filing of their VAT3 returns, are active. Using this definition of activity, the figures for 2017 are 15 per cent below the highest level recorded in 2008.

There is a regular flow into and out of VAT registration as illustrated in Figure 4.

Figure 4: Change in Number of Registered Traders 2017 to 2018

Source: Revenue analysis.

Table 3 shows the numbers of active VAT registered traders by sector. In 2017, four sectors (construction, wholesale & retail, professional, scientific & technical and accommodation & food) accounted for over 60 per cent of active VAT traders.

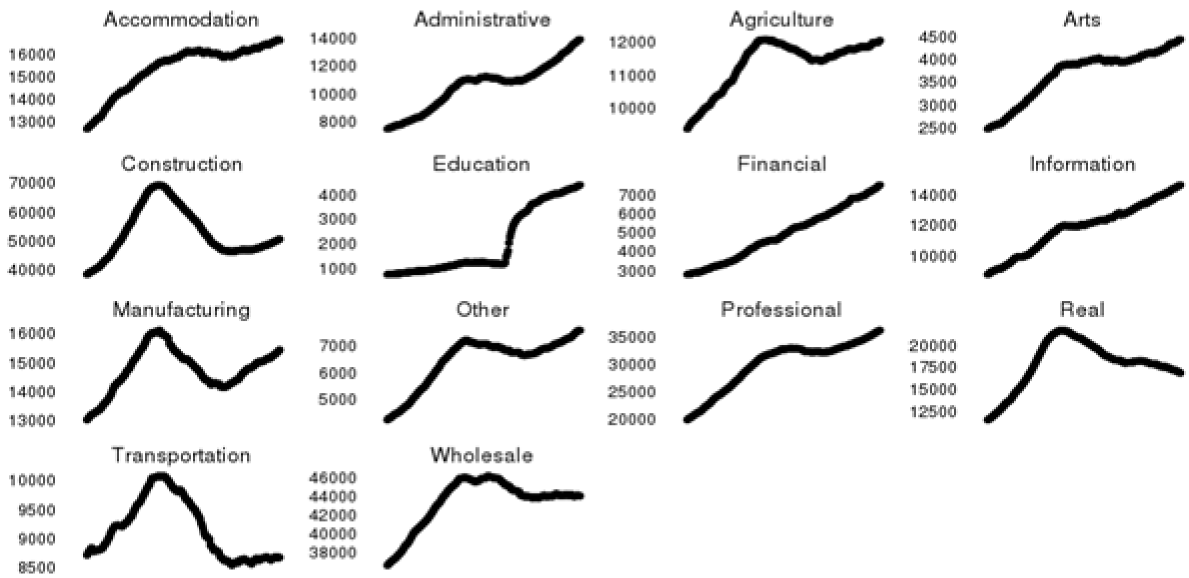
Table 3: Active VAT Traders by Sector

000s	2001	2003	2005	2007	2009	2011	2013	2015	2017
Construction	31.4	37.0	47.8	55.0	47.6	39.2	34.3	35.7	39.7
Wholesale & Retail	30.7	33.0	36.1	38.9	38.4	37.9	36.8	36.3	37.3
Prof., Scientific & Tech.	15.9	18.4	21.4	25.2	25.6	25.5	25.4	26.4	30.0
Accommodation & Food	11.1	12.0	12.9	13.7	13.6	14.0	14.1	14.5	15.0
Manufacturing	10.0	10.6	11.7	12.5	12.1	11.5	11.3	11.8	12.7
Information & Comm.	6.2	6.7	7.6	8.9	8.9	9.2	9.8	10.3	11.5
Agri., Forestry & Fishing	8.5	9.2	10.0	11.1	11.0	10.6	10.4	10.7	11.0
Administrative & Support	5.6	6.1	6.9	8.3	8.1	7.9	7.8	8.2	9.1
Real Estate Activities	8.0	9.3	11.5	12.4	11.0	9.6	8.9	8.9	11.0
Transportation & Storage	7.2	7.6	8.1	8.6	8.3	7.7	7.4	7.3	7.6
Other Service Activities	3.6	4.2	5.2	6.4	6.3	6.2	6.0	6.3	6.9
Arts, Entertainment & Rec.	2.0	2.2	2.6	3.1	3.0	3.1	3.1	3.3	3.7
Financial	1.4	1.5	1.6	2.1	2.1	2.3	2.6	3.0	4.2
Education	0.5	0.6	0.7	0.9	0.9	0.8	0.9	0.9	3.0
Public Administration	0.1	0.2	0.3	0.4	0.4	0.5	0.6	0.8	0.9
Other	20.0	20.2	22.1	18.2	13.2	8.0	6.0	5.0	4.9
Total	**162**	**179**	**206**	**226**	**210**	**194**	**185**	**189**	**196**

Source: Revenue analysis.

Figure 5 provides an overview of the sectoral changes in VAT registrations from 2002 to 2018. The most severe reduction, over 33 per cent from 2007 peak to 2014 trough, was in construction. The recent surge (from a low base) in registrations in the largely VAT exempt sector of education is driven by the introduction of electronic Relevant Contracts Tax ("eRCT") in 2012.

Figure 5: Number of VAT Registrations by Sector 2002 to 2018



Source: Revenue analysis.

3.2 Returns

VAT registered traders typically elect to file a VAT return every two months or, where certain criteria are met and authorisation is granted by Revenue, on a four, six or twelve monthly basis. Such traders have an annual turnover below a specific threshold, the exception being a proportion of the twelve month filers who opt to pay monthly payments by direct debit.[5] Table 4 shows the share of VAT registered traders filing their VAT3 returns at different return frequencies and the proportion of VAT payments and repayments associated with each group.

Table 4: VAT by Return Period 2018

	Share of Traders	Share of Payments	Share of Repayments
Two Monthly	58%	88%	96%
Four Monthly	24%	4%	3%
Six Monthly	10%	1%	1%
Twelve Monthly	8%	7%	1%

Source: Revenue analysis.

[5] A number of traders also receive VAT repayments on a monthly basis, typically these traders are registered with Revenue as in a net VAT repayment situation. These traders file a VAT3 return along the periodic VAT return cycles where the actual labilities can be observed.

A large proportion (58 per cent) of traders file their returns on a two monthly basis and pay the majority (88 per cent) of VAT paid through VAT3 returns. These businesses also account for nearly all (96 per cent) VAT repayments among these groups.[6]

3.3 Cash Based Accounting

There are two methods of accounting for VAT. In 2018, 140,000 traders elected to register on a money received basis (also known as the receipts or cash basis). Under this option, a trader accounts for VAT when payment is received from the customer. The remaining traders (around 60,000 in 2018) used the invoice basis for accounting, where a trader accounts for VAT when they issue the invoice to the customer. This is irrelevant of whether they receive payment from the customer at this time or not.

[6] A very small proportion of VAT repayments are claimed by businesses who file their VAT3 on a twelve month period. For these businesses it is probable that an overpayment of VAT may have occurred at a previous time period and a VAT repayment is required at a later period.

4 Receipts

4.1 Seasonality

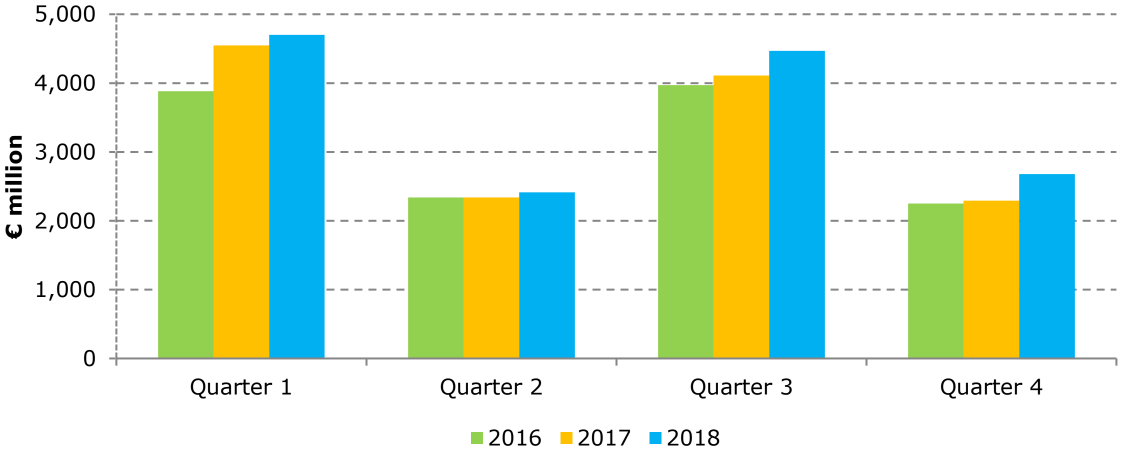
VAT receipts demonstrate a high degree of seasonality (Table 5). With most VAT returns filed two monthly, receipts paid with returns filed in January largely relate to the November/December liability period – traditionally the time of year with the highest consumer spending. As Figure 6 shows, this pattern is stable and much of the growth in recent years arises in the first quarter's receipts.

Table 5: Net VAT Position by Quarter in 2018

Quarter	Net Receipts €m	Year on Year % Difference
1	4,700	3%
2	2,415	3%
3	4,468	9%
4	2,680	17%

Source: Revenue analysis.

Figure 6: Quarterly VAT Receipts



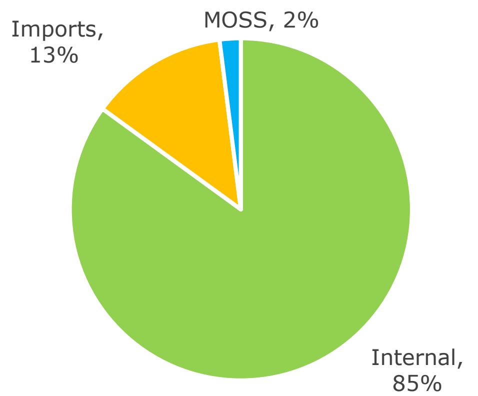
Source: Revenue analysis.

4.2 Composition of VAT Receipts

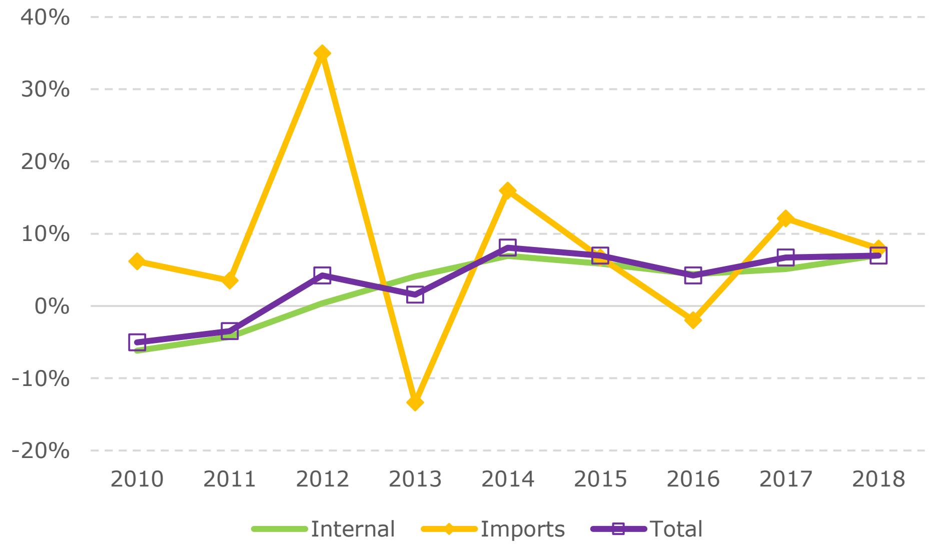
Section 4.1 shows total VAT receipts. As outlined in Section 2, this is the combination of VAT collected through three main sources: VAT internal, VAT on imports and VAT MOSS. Figure 7 shows a number of breakdowns of VAT receipts by these sources. VAT internal is by the far the largest source (85 per cent of receipts in 2018) and the main driver of growth in total VAT receipts. VAT on imports is the most volatile source with the largest changes year to year.

Figure 7: Composition of VAT Receipts

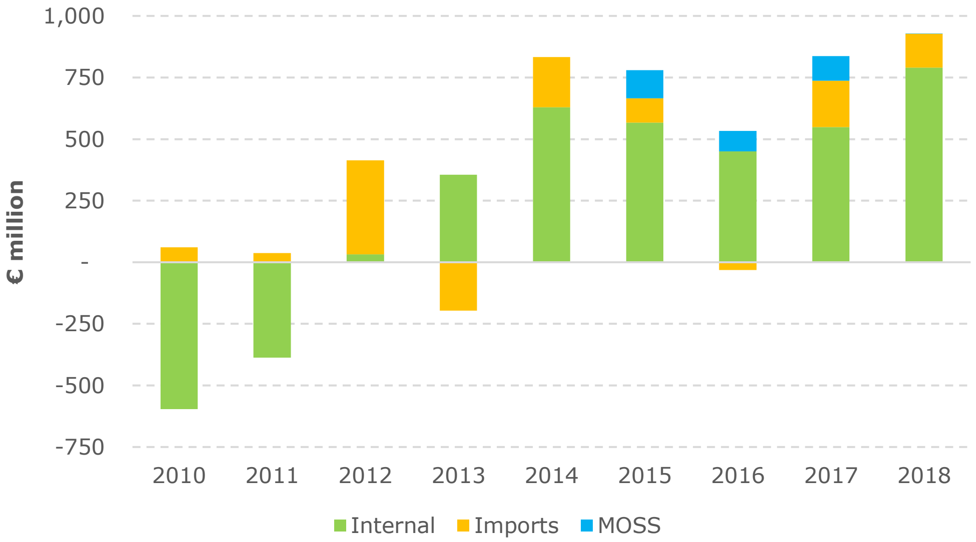
Receipts 2018 by Source



% Annual Change in Receipts by Source



€ Contributions to Annual Change in Receipts by Source



Source: Revenue analysis. Note: VAT MOSS excluded from middle chart as low base leads to large % variations.

4.3 Receipts by Sector

Table 6 shows total VAT receipts broken down by sector based on the economic activity of the trader. The largest sectors are wholesale & retail trade, professional, scientific & technical, real estate activities and accommodation & Food. This differs for VAT registrations (Sections 3.1 and 3.2) with construction the largest in terms of numbers but low in relation to the value of net payments.

Table 6: VAT Receipts by Sector

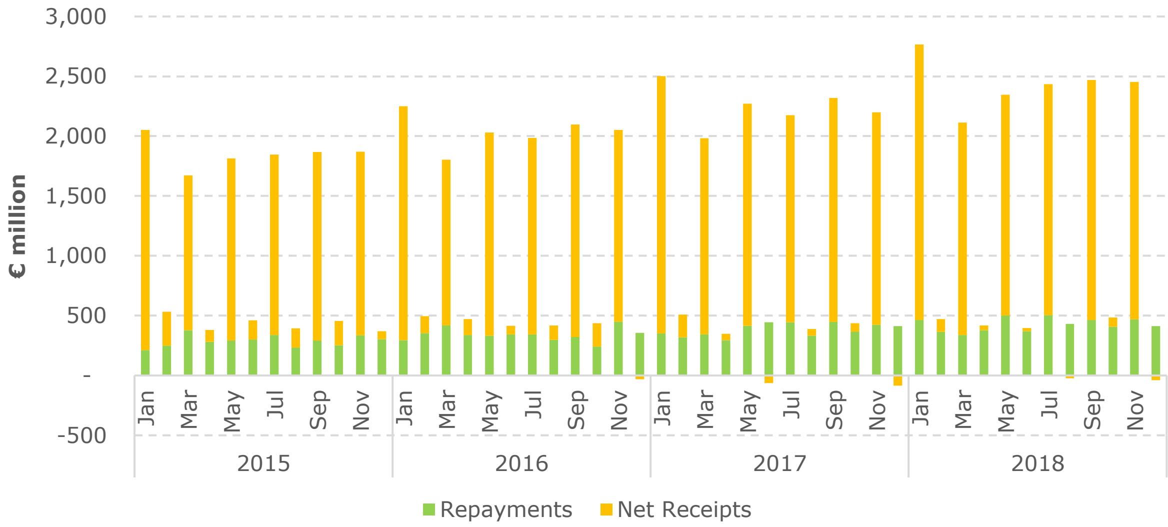
€ million	2017	2018	Growth
Wholesale and Retail Trade,	5,170	5,510	7%
Professional, Scientific and Technical	1,685	1,837	9%
Real Estate Activities	680	707	4%
Accommodation and Food	632	647	2%
Information and Communication	549	614	12%
Administrative and Support	482	549	14%
Manufacturing	426	485	14%
Financial and Insurance	303	396	31%
Public Administration,	272	335	23%
Electricity, Gas, Steam, and Air	310	314	1%
Transportation and Storage	232	251	8%
Construction	173	177	2%
Other	447	334	-25%
Total	**11,361**	**12,156**	**7%**

Source: Revenue analysis. Note: It is not possible to provide a complete breakdown of all VAT receipts by sector.

4.4 Internal VAT

Figure 8 shows gross VAT internal receipts by month, split into net receipts and repayments. The seasonal patterns noted earlier are highly evident (with peaks each January). The impact of two monthly filing on net receipts is clear, with negligible or even negative net receipts in some "off" months (where two monthly VAT3s are not due). Repayments are less impacted by seasonality or timing issues, with their amounts relatively stable month on month (repayments are discussed further in Section 5).

Figure 8: VAT Internal Gross Receipts

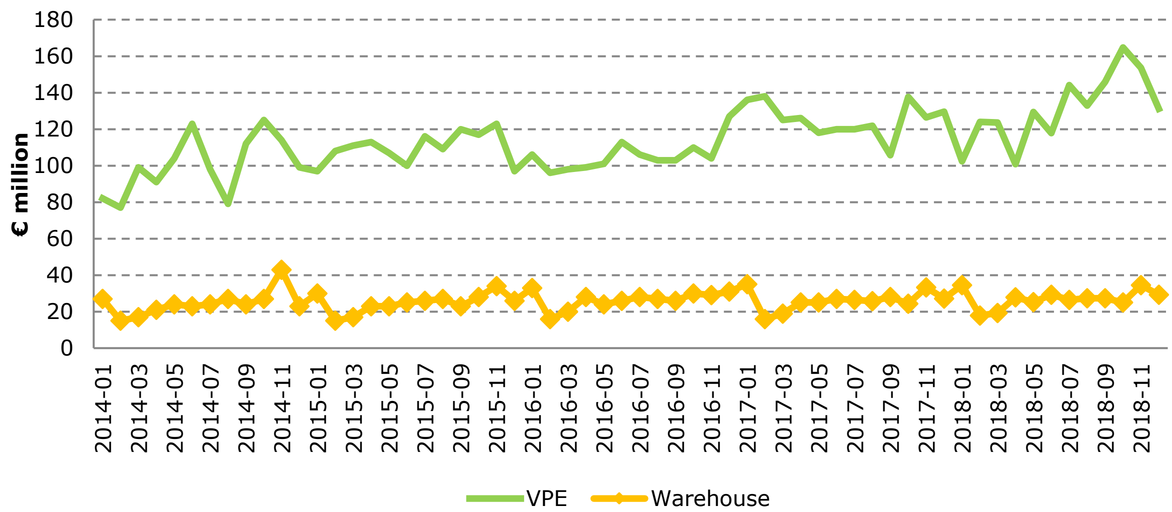


Source: Revenue analysis.

4.5 VAT on Imports

VAT on imports splits into VAT at the Point of Entry ("VPE") and ex-warehouse. VPE is the VAT paid at the point of entry into the State of an import from a third (non-EU) country. In some cases, where a product is held in a tax warehouse (sometimes known as an Excise or bonded warehouse), the VAT is paid as the product leaves the warehouse. As Figure 9 shows, the bulk of VAT on imports arises from VPE and this category also features higher variation in monthly trends.

Figure 9: VAT on Imports



Source: Revenue analysis.

4.6 VAT MOSS

In Ireland as at 31 December 2018 there are 314 businesses supplying TBE services to other EU Member States using the MOSS scheme (outlined in Section 2).[7] The total value of TBE services supplied between 2015 and 2018 was €22.1 billion.[8]

Table 7: Value of Sales

Year	€ billion
2015	2.53
2016	3.77
2017	7.22
2018	8.56
Total	**22.08**

Source: Revenue analysis.

Under EU rules during the period 2015 to 2018 Ireland was entitled to retain a portion of payments to other Member States being paid through the Irish system (30 per cent of the VAT being transferred for the first two years and 15 per cent for the final two years).[9] In the four years of operation of MOSS, the Irish Exchequer received over €741 million in retention fees. In addition, Ireland received payments of €168 million from other Member States (after they applied retention fees) on traders supplying Irish consumers via MOSS registrations elsewhere in the EU.

Table 8: MOSS Receipts 2015-2018

Year	Retention in Ireland €m	From Other Member States €m
2015	88.2	25.4
2016	155.6	41.6
2017	255.1	43.6
2018	242.2	57.7
Total	**741.2**	**168.2**

Source: Revenue analysis.

Table 9 summarises VAT payments to and from Ireland under the MOSS scheme. As this show, the UK is Ireland's largest export and import market for such services.

[7] Revenue publishes detailed quarterly MOSS statistics at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/registrations-assessments-transactions/vat-moss.aspx.
[8] The vast majority (€20.7bn) was collected under the Union scheme where the taxable person/business has an establishment in the EU.
[9] As of 1 January 2019 retention fees no longer apply (returns for 2018 are still being received in 2019).

Table 9: MOSS VAT Receipts 2015-2018 by Partner Country

Partner	From Other Member States €m	Retention in Ireland €m
Austria	3.1	14.2
Belgium	4.3	19.8
Bulgaria	0.3	1.3
Croatia	0.4	1.8
Cyprus	0.2	0.9
Czech Republic	1.3	5.6
Denmark	6.3	28.2
Estonia	0.2	0.9
Finland	2.1	9.6
France	24.6	109.9
Germany	26.7	124.3
Greece	1.2	5.7
Hungary	1.0	4.3
Italy	10.3	46.4
Latvia	0.2	0.9
Lithuania	0.3	1.0
Luxembourg	1.9	1.5
Malta	0.5	0.6
Netherlands	9.4	34.5
Poland	2.2	10.2
Portugal	1.3	6.0
Romania	0.7	3.4
Slovakia	0.4	1.8
Slovenia	0.2	0.9
Spain	8.1	36.1
Sweden	8.5	35.7
United Kingdom	52.6	235.9
Total	**168.2**	**741.2**

Source: Revenue analysis.

4.7 Concentration of Receipts

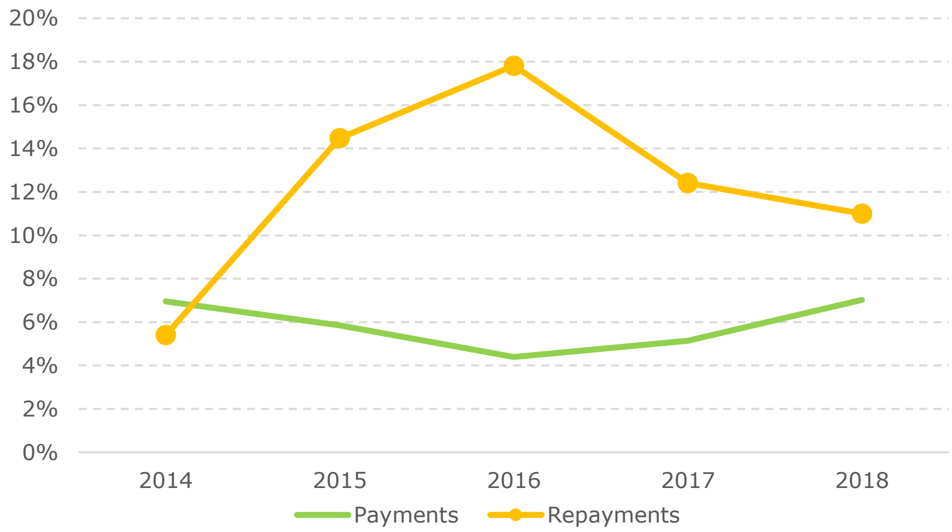
Previous Revenue analysis has noted the concentration of Corporation Tax receipts among a relatively small number of cases. To a lesser degree, concentration exists also in other tax heads including VAT.

Taxpayers in Revenue's Large Corporates Division ("LCD"), which has responsibility for managing the tax affairs of the largest taxpayers, accounted for 2 per cent of VAT registered traders, 35 per cent of VAT payments and 21 per cent of the value of repayments in 2018. Overall the largest 20 per cent of traders accounted for 94 per cent receipts in 2018.

5 Repayments

Repayments are frequent in VAT, usually arising where a trader has paid more on their purchases than charged on sales to customers. As Figure 10 shows, the growth rate of repayments has exceeded that for payments in recent years.

Figure 10: Growth Rates of Payments and Repayments



Source: Revenue analysis.

A small number of traders engage in business activities that are unlikely to generate VAT on sales. Examples are traders in the export industry, the food sector and supply of educational books. These industries can apply to have VAT repayments made between the scheduled periodic filing of a VAT3 tax return.

Traders in a permanent repayment position account for 27 per cent of the total value of VAT repayments in 2018. The value of VAT repayments made to this group over the last number of years has remained relatively constant (in 2013 these traders accounted for 35 per cent of VAT repayments by value). A significant amount of the VAT repayments for these traders is observed across the manufacturing sector. However, it should be noted that these traders represent a tiny proportion of all traders across these NACE groups. In 2016 for example, within the manufacturing sector there are 249 traders in permanent repayment position out of 15,281 traders.

Total VAT repayments have grown since 2013 and the number of claimants of VAT repayments has increased since 2014 (Table 10). The value of these claims also rose, with the average (median) value increasing by approximately 17 per cent since 2013.

Table 10: Traders, Claims and Average Value

Year	Traders with Repayment Claims	Total Number of Claims	Average Value €	Median Value €	Total Value €m
2013	102,933	305,977	9,158	718	2,802
2014	99,435	299,409	9,830	721	2,943
2015	100,097	308,319	11,135	790	3,433
2016	104,023	326,438	12,497	780	4,079
2017	106,679	335,757	13,748	798	4,616
2018	107,562	340,613	14,987	838	5,105

Source: Revenue analysis.

From 2013 to 2016, the faster growth of repayments compared to payments impacted negatively on receipts. Analysis of VAT repayment claims by their size and the annual change in the size of large repayments shows that the top 1 per cent of claims (by value) accounted for 65 per cent of all VAT repayments in 2018 (in 2018 any claim in excess of €185,000 falls into this category). From 2013 to 2015, this top percentile of VAT repayment claims steadily increased in the proportion of repayments they account for. The value at which claims reach this group has also increased steadily over those years, indicating that a larger number of higher value claims are been made.

More generally, while there are some atypical claims, these are not significant factors in the increase in repayments. It appears that more regular claims are consistently driving the increase, and these do not appear out of line with sales growth – timing issues and the export oriented nature of some of the businesses involved explain part of the variations between gross and net receipts.

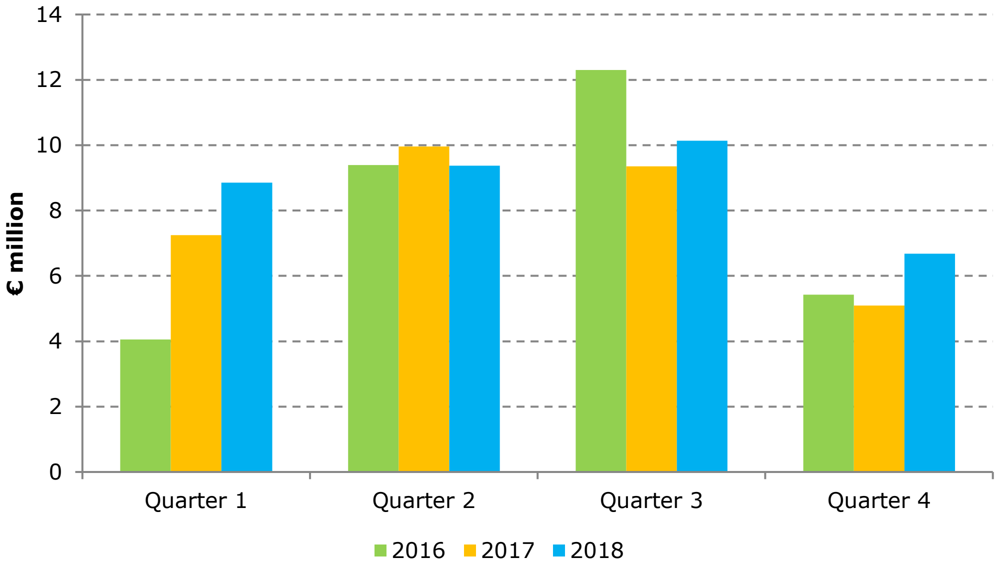
The trends noted may also reflect a feature of the recovery from the economic downturn, in that repayments grow faster than payments for a period. The stabilisation seen from 2016 may be part of this.

On occasion a business may have significant spikes in output that are typically preceded by lower levels of sales activity. In such instances where a series of larger than anticipated VAT repayment claims are made, this may temporarily reduce the VAT receipts in a given accounting period.

Another factor in considering repayments is that certain unregistered persons may reclaim VAT under a number of conditions.[10] The level of these repayments has increased moderately but inconsistently in recent years (Figure 11).

[10] See https://www.revenue.ie/en/vat/repayments-to-unregistered-persons/index.aspx.

Figure 11: Repayments to Unregistered Persons



Source: Revenue analysis.

6 Conclusion

The report is a statistical profile of receipts from VAT and of the taxpayers engaged in VAT liable transactions or activities. This is published to provide evidence to inform policy makers and stakeholders interested in the second largest tax in receipts terms.

This report complements the extensive VAT statistics published on Revenue's website by providing in depth analysis of trends in VAT registrations, returns, receipts and repayments in recent years.