Value added tax (vat) is a tax on consumer spending.

Businesses (whether sole traders, partnerships or companies) charge VAT on the supply of goods and services.

They act as a collector of these monies for the Revenue Commissioners.
Example – furniture retailer

An item of furniture is sold by a furniture retailer for €1,000. VAT will be charged on that sale at 21 per cent with the customer pays €1,210 for the furniture.

The furniture retailer records the sale at €1,000 and owes the Revenue Commissioners €210 in VAT.

If the furniture retailer bought in the item from a manufacturer for €600 and was charged vat at the rate of 21 per cent then he owes the manufacturer €726 (€600 + vat of €126).

As the vat on purchases can be offset against the vat on sales, the furniture retailer now owes €84 (€210 less €126) to the Revenue Commissioner.

The Revenue Commissioners get the full €210 VAT on the final sale, the manufacturer remits €126, the furniture retailer remits €84.
Example – stationery retailer

Stationery purchases amounted to €3,000 + vat €630
Stationery sales amounted to €10,000 + vat €2,100
Calculate the vat liability of the stationery retailer.

The stationery retailer will charge vat on the supply of stationery at the rate of 21 per cent.

- The VAT on sales €2,100
- The VAT on purchases €630
- Due to Revenue Commissioners €1,470

The vat on purchases of €630 can be offset against the vat on sales of €2,100 resulting in the retailer owing the Revenue Commissioners €1,470.

The Revenue Commissioners will receive €630 from the manufacturer and the balance of €1,470 from the retailer.
Taxable persons

“is an individual, partnership, company etc which is, or is required to be registered for vat.”

Revenue Commissioners

Businesses (whether sole traders, partnerships or companies) charge VAT on the supply of goods and services and they act as a collector of these monies for the Revenue Commissioners. For a business to be required to register for VAT it must be involved in the supply of goods or services that constitute a taxable business activity and whose turnover in any financial year exceeds the following limits:

- Supply of Goods - €51,000
- Supply of Services - €25,500
**Taxable activities**

**Taxable activities:** If the activities of an individual, partnership or company are taxable then the business must charge VAT on its sales at the appropriate rate. However the VAT incurred on purchases (including expenses and assets) can be offset against the VAT charged on sales.

**Exempt activities:** Businesses that carry on exempt activities are not required to charge VAT on the sale of goods and services and do not get a refund of VAT paid on their expenses and outgoings. Also it must be remembered that should your turnover be less that the limits above you are treated as exempt for VAT purposes.

**Zero rated activities:** Businesses that carry on zero rated activities charge VAT on the sale of their products or services at the rate of 0%. However they still can get a refund for any VAT paid on the normal outgoings of the business. In this case, businesses that carry on zero rated activities will never have a VAT liability. The Revenue Commissioners will always owe monies to these businesses.
## Taxable activities

<table>
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<tr>
<th>Taxable – higher rate 21%</th>
<th>Taxable – lower rate 13.5%</th>
<th>Exempt</th>
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<td>Stationery</td>
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<td></td>
</tr>
<tr>
<td>Most electrical goods</td>
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<td></td>
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</tbody>
</table>
Calculation of VAT

VAT is chargeable on the total sum “paid or payable to the persons supplying the goods or services including all taxes, commissions, costs and charges whatsoever but not including the vat chargeable in respect of the transaction”

The Revenue Commissioners
Accounting for VAT on sales

VAT charged on sales is not part of the revenues of the business and should not appear as part of sales in the trading profit and loss account. Thus sales and vat must be separated. This is done as follows:

- For all credit sales the sales journal shows the gross and net sales and the vat separately for each sales invoice. Two extra columns are inserted in the journal for this.
- For cash sales an extra column is inserted in the cash book to show the vat element of each cash sale. The actual amount received (including vat) will be shown in the cash or bank column.
- In the ledger accounts all sales (excluding vat), are credited to a sales account and the VAT element credited to a vat account. Thus vat and sales are separated. All debtor accounts are shown inclusive of VAT.
Accounting for VAT on purchases

For any expenses for which VAT was charged, an allowance for VAT can be claimed. The VAT is not a true cost and should not appear in the trading profit and loss account as part of the expenses. Thus expenses and VAT must be shown separately. This is recorded as follows.

- For all credit stock purchases the purchases journal shows the gross and net purchases and the VAT separately for each purchase invoice. Two extra columns are inserted in the journal for this.
- For all cash purchases and other expenses an extra column is inserted in the cash book to show the VAT element of all cash purchases and expenses separately and the actual amount paid (including VAT) will be shown in either the cash or bank column.
- In the general ledger all expenses are debited to the expense account net of VAT and the VAT element debited to the VAT account. All creditor accounts are shown inclusive of VAT.
Accounting for VAT on assets

If the business purchased any fixed assets and were charged VAT on their purchases, this VAT is not part of the cost of fixed assets as the business can get an allowance for it. Thus the VAT and the purchase cost of fixed assets must be shown separately. Hence in accounting for the purchase of a new computer, the bank account is credited with the monies paid for the asset (including VAT) and the asset account and VAT account are debited with their respective amounts.
Payment of VAT

VAT is due and payable by the nineteenth day of the month following the end of a 2 month taxable period.

All taxable persons must fill in a prescribed return form (VAT 3) giving details of the VAT on sales and all VAT deductibles/allowances. If the deductible VAT exceeds the VAT on sales the excess will be repaid to the taxable person by the collector general.

In addition taxable persons are required to provide an annual return on form RTD EUR, which is a return showing annual trading details of purchases and sales broken down by VAT rate.