



SortMyBooks Guide to Irish VAT Returns

This Guide works for people using Autoentry in conjunction with SortMyBooks or using SortMyBooks on its own. If you're not using Autoentry, we'd recommend having a look at it. It works really well with SortMyBooks. It will save you time and hassle and really helps with making sure you capture all of your receipts and invoices. If you are an accountant or bookkeeper using Autoentry is very useful for transferring data from your client to you. There will be no more waiting for receipts and purchase invoices.

<https://sortmybooks.zendesk.com/hc/en-us/articles/235884968-How-to-integrate-with-AutoEntry>

Irish VAT has some subtle rules that you may not be aware of and it can mess up your VAT compliance. Please study this entire document to make sure you understand VAT compliance. Even if you've been filing your VAT for years on your own there may be rules that have changed or methods you're not aware of in SortMyBooks. Have a read of the list below to make sure that you're not inadvertently filing your VAT incorrectly.

If you're an **accountant** or **bookkeeper**, please have a read. You may not be aware of how to handle these items in **SortMyBooks**.

Terms:

Reverse Charge - this means the VAT is reported in your sales and your purchase VAT. It applies to purchases from outside of Ireland but within the EU. It also applies to sub-contractors for businesses in the construction industry.

Cash Receipts Basis: If you are registered for VAT on a Cash Receipts basis then you only have to pay VAT on Sales once you've been paid. Obviously this is better for cashflow. The Revenue allows businesses with an annual turnover up to 2 Million Euro to register on a Cash Receipts Basis. You do need to contact Revenue to change your basis, you can't just make the decision to start reporting Cash Receipts yourself. But once you contact them, as long as your turnover is below the threshold, you can request that they change your reporting basis.

Invoice Basis: This means that you have to pay the VAT to Revenue on any Sales Invoices that you've generated during the VAT period even if your Customer has not yet paid you.

NB: Please note that in Ireland when you are registered for VAT on a cash receipts basis, it only applies to Sales. It does not apply to Purchases. You are allowed to reclaim VAT on your purchase invoices as soon as you receive them. You do not have to wait until you've paid them.



VAT Rates used in Ireland

23%, 13.5%, Zero%, Exempt and for farmers 4.8% (applies only to agriculture in certain circumstances).

Businesses that do not have to charge VAT

Medical profession eg. Doctors, Dentists, Chartered Physiotherapists.
Insurance companies.

VAT Thresholds

Businesses selling a service: 37,500 turnover in a year
Businesses selling products: 75,000 turnover in a year

When a business's turnover reaches the threshold they must inform Revenue and register for VAT.

VAT Reports

VAT 3 - report to be filed with Revenue either bi-monthly, four-monthly, six-monthly or annually. Revenue will let you know what this is, you do not get to decide for yourself. New businesses will automatically be placed on bi-monthly for at least the first year.

RTD - stands for **Return of Trading Details** - this is an annual report to be filed at the end of your accounting year. This report is based on your accounting year.

VIES - This report is to be filed quarterly. It is only for businesses that are selling at 0% to VAT registered business outside of Ireland but within the EU. There's no minimum threshold for this report. If you make any sales at all at 0% VAT to a VAT registered business outside of Ireland but within the EU then you need to register for VIES. It is incumbent upon you to register for VIES and file your returns on time. If you don't you may get fined and penalised when Revenue catches up with you and you'll still have to backfile all the reports.

Intrastat - This report is to be filed monthly for businesses trading with other EU countries if their purchases and sales reach the following thresholds:

Imports - 500,000 Euro.

Sales - 635,000 Euro.

Additional information is required on Intrastat reports at the following thresholds:

Imports - 5,000,000 Euro.

Sales - 35,000,000 Euro.



What goes into a VAT Report

Purchases:

Things that you need to watch out for when you're doing a VAT return, whether you're doing it yourself or you're doing it on behalf of someone else.

Zero% VAT

You need to carefully look at invoices that have 0% VAT on them. There are only very few reasons where a supplier will invoice you with 0% VAT. The most common reason is that they are not VAT registered. Some training courses are also 0% rated for VAT. In cases like that, then you put it into SortMyBooks with Zero% VAT.

If the supplier is from outside of Ireland but within the EU and they invoice you at 0% then you're likely going to have to enter that as a **Reverse Charge** invoice. See point below on **EU Purchases** for more detail.

If you spot a Zero% rated invoice but you see the phrase on it "**VAT on this supply should be accounted for by the Principal Contractor**", that's another Reverse Charge situation. See point below detailing how to handle **Sub-Contractor's** invoices.

NB: Autoentry users - you will have to adjust these invoices once they are published in SortMyBooks. Publish them as Zero% VAT and then once in SortMyBooks change the VAT Rate to what it should be. Make sure that the VAT Amount continues to display as 0 but that the EU/RCV VAT column has a value.

Exempt VAT

Most businesses will rarely have purchase invoices that are Exempt from VAT. We have to have it there for the rare occasions it's needed, eg. An Post and Insurance bills, or an invoice from a supplier outside of the EU. There may be other times but you get the point, it's rare, so don't use it unthinkingly.

Here's where Exempt is not accurate. When you buy something from another EU country and they ask you for your VAT Number and then give you a 0% rated invoice. It's not Exempt. And it's not 0% either. See point on **EU Purchases** for what it should be.

Sub-Contractor invoices are not Exempt either. If you receive an invoice from a sub-contractor and it says 0% VAT on it but also has the phrase "**VAT on this supply should be accounted for by the Principal Contractor**" that's another case where it's not Exempt and it's not 0% either. See point on **Sub-Contractor's** for what it should be.

EU Purchases



If you are VAT registered and you purchase something from outside of Ireland but within the EU then you can purchase that item at 0% VAT if the supplier is also VAT registered. You need to make the supplier aware that you're registered for VAT in Ireland and share your VAT number with them. They will give you an invoice showing 0% on it. However, it is up to you to report the VAT in what's called Reverse Charge. In SortMyBooks it means that you need to set the supplier up with the correct country. Follow the steps in this article for how to correctly enter an EU purchase invoice.

<https://sortmybooks.zendesk.com/hc/en-us/articles/235882028-How-to-enter-an-EU-Purchase-Invoice>

Did you buy a product or a service and why is this important. There are boxes on the VAT 3 form called E2 and ES2. In E2 you need to report the value of products imported at 0% from another EU country. If ES2 you need to report the value of a service purchased from another EU country at 0%.

SortMyBooks handles this automatically as long as you choose the correct country when you set up the Supplier. When you key in the purchase invoice, you need to choose whether you purchased a product or a service. If you are using Autoentry, you'd have to make a manual intervention for this once you've published the invoice to SortMyBooks.

NB: Autoentry users - you will have to adjust these invoices once they are published in SortMyBooks. Publish them as Zero% VAT and then once in SortMyBooks change the VAT Rate to what it should be. Make sure that the VAT Amount continues to display as 0 but that the EU/RCV VAT column has a value.

Sub-contractor Invoices (Reverse Charge VAT) - this applies only to the construction industry

When you see an invoice with Zero% on it, check if it also contains the phrase ***“VAT on this supply should be accounted for by the Principal Contractor”***. If it does then you need to enter that correctly into SortMyBooks. When you set up the Supplier, make sure that you change their type from Supplier to Sub-contractor. When you enter in their purchase invoice you are going to choose VAT Rate 13.5% even though the invoice has 0% on it. This is to allow for the Reverse Charge. There are certain cases where the reverse charge is 23%. These predominantly relate to hire of plant and machinery including a driver. If you are unsure then contact the supplier who gave you the invoice to ask them what their rate should be.

If you're using Autoentry, you may have to make a manual adjustment to this invoice once it's published into SortMyBooks. Go to SortMyBooks and click on the Invoice and change the VAT Rate to 13.5% or 23%. You will know if the invoice is correct if the VAT Rate shows as eg. 13.5% but the the VAT amount displays as 0. The reverse charge amount will display in the EU/RCV column.



NB: Autoentry users - you will have to adjust these invoices once they are published in SortMyBooks. Publish them as Zero% VAT and then once in SortMyBooks change the VAT Rate to what it should be. Make sure that the VAT Amount continues to display as 0 but that the EU/RCV VAT column has a value.

Non-reclaimable items:

There are some things that you are not allowed to reclaim the VAT on even if it's a business expense and even though you've been charged VAT. Those items are:

Food and drink - you may be outside of your normal place of business for more than 5 hours, at a sufficient distance from your base, and you buy yourself lunch or coffee/tea. You're allowed to reclaim this item as an expense but it has to go into SortMyBooks at Zero% VAT. It's a Revenue rule that you're not allowed to reclaim the VAT on food and drink.

Petrol - if you have a petrol vehicle that you use for business purposes, you'll be charged 23% VAT on the petrol. But you're not allowed to reclaim that VAT. Again it's a Revenue rule that VAT on petrol cannot be reclaimed. VAT on diesel can be reclaimed but not on petrol. The exception is if you are buying petrol for resale, eg. like a service station. Enter these receipts in SortMyBooks with Zero% VAT.

Hotel accommodation - even if you are staying overnight in a hotel on business, you're not allowed to reclaim the VAT. You can claim the cost of the hotel as a business expense but it has to be entered into SortMyBooks at Zero% VAT. This is a Revenue rule. The only exception is if you are staying in the hotel because of attending a conference. In those cases you are entitled to reclaim the VAT on your hotel accommodation.

Non-business related expenses:

Be alert for personal items that got thrown in with the VAT paperwork, unless an item is a business related expense VAT cannot be reclaimed on it.

Receipts or invoices from another country where you paid VAT

You cannot reclaim VAT you paid to another country on your standard Irish VAT return. For example, let's say you were in the UK or Germany or some other EU country on business and you bought diesel, office supplies etc. and there's VAT on those. You can't reclaim that on your Irish VAT return. That is VAT paid to another country. There are companies that specialise in reclaiming VAT paid in another country and I'm sure there's a method online of reclaiming that VAT yourself. But the main thing is that you understand you cannot reclaim it on your Irish VAT return. How you account for it in SortMyBooks is with the VAT Rate Zero%.



When you don't have the proper VAT Receipt or Invoice

You can't reclaim VAT where you do not have a VAT receipt or Invoice. If you've only got a credit card receipt that's not enough to reclaim VAT. You need the original till receipt showing what was purchased, what VAT rate it was, and the VAT number of the merchant.

Your supplier needs to provide you with a proper VAT receipt/invoice for you to be able to reclaim the VAT. It needs to have their VAT Number, the VAT Rate and the VAT amount. You can't assume there is VAT because they may not be VAT registered.

More than 1 VAT Rate on the same invoice

There are multiple VAT Rates in Ireland meaning you can receive an invoice with more than 1 rate on it. Always check that the VAT amount on the original invoice matches the VAT amount that you see in SortMyBooks. Sometimes there might be rounding differences of 1 cent. If there's a bigger difference than that then it's likely there's more than 1 VAT rate. In SortMyBooks you need to enter each VAT rate on a separate line. The original invoice will have a VAT summary showing the VAT breakdown.

<https://sortmybooks.zendesk.com/hc/en-us/articles/235881928-Purchase-Invoices>

Is it for resale or not and why is this important

You need to be aware if the invoice contains items for Resale. For example retailers buy things to sell on to their customers. When it comes to filing the RTD (Return of Trading Details) form there is a specific place to fill out purchases for Resale. In SortMyBooks there is a tick box for items for Resale. This needs to be ticked for resale purchases so that they display in the correct part of the RTD (Return of Trading Details) report.

If you are using Autoentry you will have to edit the invoice once it's published to SortMyBooks to tick the Resale box. We are working with Autoentry to get this included.

If you are not using Autoentry setting defaults for all your Suppliers in SortMyBooks makes VAT much simpler. You can set up the VAT Rate, Resale and the Nominal ahead of time and then every time you enter an invoice for that Supplier the correct settings come up automatically. I highly recommend doing this, not just to save time, but also for accuracy. Have a look here for how to do it.

<https://sortmybooks.zendesk.com/hc/en-us/articles/235882128-Lesson-on-How-to-set-up-default-products-and-services->

Sales:



Sales is the other item that makes up your VAT Return. So let's go through how SortMyBooks captures your Sales VAT.

SortMyBooks has 2 settings for VAT - **Cash Receipts** or **Invoice Basis**. These are Revenue terms and they mean the following:

1. *Cash Receipts* - you report and pay the VAT on Sales Invoices only when your customer has paid you.
2. *Invoice Basis* - you report and pay the VAT based on the date you send the invoice.

Businesses are entitled to register for cash receipts as long as their turnover is below 2 Million Euro annually. Cash receipts is better for cashflow. NB: If you are currently registered on Invoice Basis you will need to contact Revenue if you want to change to Cash Receipts.

To check what setting you are on in SortMyBooks, click on:

Home, Settings and Accounting and check **VAT Calculation type**.

On SortMyBooks the Cash Receipts basis works by reporting the payments allocated to Sales Invoices in the VAT Reports. This is why it's very important to allocate your payments to your Sales Invoices. If you record your payments from Customers as payments on account SortMyBooks won't know how much VAT is due. If you apply a partial payment to an invoice, eg. let's say your invoice is for 1000 euro but you have only received 400 from your customer, then SortMyBooks will proportionally calculate the VAT based on the 400 payment.

Invoice Basis - SortMyBooks will report the VAT based on the date of the Invoice regardless of whether it has been marked as paid.

Two-thirds rule (applies to construction industry or trades). It applies where you supply both labour and materials and where your labour is supplied at 13.5%.

If you are supplying materials and labour on a job you can either invoice each item separately, eg. put the labour on your invoice at 13.5% and the materials on your invoice at 23% or it may be more advantageous for you to use the Two-thirds rule. The Two-thirds rule applies where the materials are less than two-thirds of the total amount that you are invoicing.

So if you are supplying materials and labour and the materials are less than two-thirds of the total then you are allowed to invoice the full amount at 13.5%.



This is of benefit to the business because the materials are purchased at 23% and therefore you are entitled to reclaim the purchases at 23% but you can invoice your customer at 13.5% for those materials as long as they do not exceed two-thirds of the full amount of the invoice.

Sub-contractors - construction industry only:

If you are VAT registered and you are working for a Principal Contractor then you will need to invoice them at Zero% but you have to include the phrase *"VAT on this supply is to be accounted for by the Principal Contractor"*.

Filing VAT Returns

You have to file your VAT online with Revenue using ROS (Revenue Online Service).

Actually Filing Your VAT

Click here <https://sortmybooks.zendesk.com/hc/en-us/articles/360025936494> to go through our checklist before filing your VAT and click here <https://sortmybooks.zendesk.com/hc/en-us/articles/235884548-How-to-do-a-VAT-3-return> to follow our guide for what to do in SortMyBooks.