

June 2011

Changes to the Operation of Relevant Contracts Tax (RCT)

Background:

Finance Act 2011 introduced an overhaul of the Relevant Contracts Tax ("RCT") system with the aim of encouraging greater compliance and reducing the administrative burden on businesses to which the RCT system applied.

Work is well advanced on developing the new scheme. Subject to a commencement order to be signed by the Minister for Finance, the scheme is expected to be introduced on **1st January 2012**.

The key elements of the new scheme as outlined in Section 20 of the Finance Act are:

- Replacement of the current RCT rates of 0% and 35% with a three-rate withholding scheme: 0%, 20% and 35%.
- Abolition of the monthly RCTDC repayment system and replacement with an offset system and annual repayment.
- Strengthening of the reporting system for RCT principals in order to enhance compliance and reduce the opportunities for fraud.
- An underlying feature of the scheme will be the mandatory use of electronic means for the transfer of information, data, payments and returns.

Overview of how the new scheme is expected to work:

It should be noted that all contact between the principal and Revenue will be through an on-line process.

- When a principal enters into a relevant contract with a subcontractor, s/he will be obliged to provide Revenue with details of the subcontractor and contract on-line, including confirmation that the contract being entered into is not a contract of employment. Revenue will then acknowledge the contact and will advise the principal and subcontractor of the rate to be applied, if available.
- Prior to making a payment under the contract, the principal must notify Revenue (by electronic means) of his or her intention to

make the payment and state the gross amount to be paid.

- Revenue will issue a deduction authorisation setting out the rate of tax and the amount of tax to be deducted from the payment. The principal must pay the subcontractor in accordance with the deduction authorisation and provide a copy of the authorisation to the subcontractor.
- Revenue will automatically put credit for any tax deducted onto the subcontractor's tax record. That credit will be available for offset as it arises or for repayment annually.
- If the subcontractor is registered for ROS, s/he will be able to see their own records through ROS.
- Revenue will now have all the details of the payments notified to them by principals. Depending on the filing frequency of the principal, a deduction summary will be issued to the principal, either monthly or quarterly, listing all of the payments Revenue has been made aware of. If the summary is correct, the principal needs only to arrange payment on or before the due date for the return. The return will be deemed to have been made on that date. If the summary requires amendment the principal can amend it on-line and arrange for payment on or before the due date.
- Payment should be made on-line by the due date. As all principals will be electronic filers, the due date is the extended date – the 23rd day after the end of the period covered by the return. The compliant principal will now have fulfilled his or her obligations.
- If the deduction summary is amended **after** the due date, the return will be late and a surcharge will apply. Revenue will issue a notice of the tax and any surcharge due.
- Revenue can assess the liability of a principal, normally following an investigation or audit. A notice of assessment will issue in such cases.

To ensure a smooth transition to the new RCT scheme, principal contractors will be able to register contracts on-line in the new scheme from **28th November 2011** ("contract registration"). This will be the only part of the new scheme that will be accessible prior to 1st January 2012. Principals will be expected to make payments to subcontractors and notify these payments to Revenue on-line from 1st January 2012

Key benefits of the new scheme for principals:

- The administration burden will be reduced, for example, principals will no longer need to:
 - Order stocks of RCT forms,
 - Complete Forms RCTDC/RCT 46/RCT 46A,
 - Manually record payments on Forms RCT 48/RCT 47,
 - Complete the annual RCT 35 return,
 - Complete the paper copy of Form RCT 1 with the subcontractor – a streamlined contract registration procedure is incorporated into the new scheme.
- There will be clarity on the RCT rate for each subcontractor: When a principal notifies Revenue of a relevant payment to a subcontractor on-line, Revenue will confirm the subcontractor's RCT rate and the amount of RCT to deduct from the payment, via an on-line "deduction authorisation" for the payment by return. A copy of this authorisation should be provided to the subcontractor.

Key benefits of the new scheme for subcontractors:

- The standard RCT rate of 35% will be reduced to 20%. (In certain limited cases a subcontractor will be placed at 35% e.g. subcontractors who are not registered with Revenue or where there are serious compliance issues to be addressed).
- Only one rate will apply to a subcontractor at any point in time. Principals will be obliged to apply this rate to payments to the subcontractor.
- There will no longer be a requirement to jointly complete Form RCT46 with the principal in order to receive gross payments.
- Subcontractors will no longer have to submit RCTDC claims to Revenue. When a principal notifies Revenue of a relevant payment, Revenue will automatically put credit for any RCT deducted onto the subcontractor's tax record. This RCT credit will be available for offset against other tax liabilities as they arise or for repayment annually.

Please note that if you are a principal and have an in-house RCT software system this will need to be updated to cater for the new RCT system. Revenue has set-up the following e-mail address to deal with any queries which you may have in this regard, eRCTinfo@revenue.ie

If you require any further information or assistance in relation to the above, please contact us.

Mike Scanlan

Tel: 051 844441

Email: mscanlan@crowleysdfk.ie

For more information, please contact us at: marketing@crowleysdfk.ie

This publication is intended only as a general guide and should not be used as a substitute for professional advice.

www.crowleysdfk.ie



16/17 College Green
Dublin 2
Ireland

Tel +353 1 6790800
Fax +353 1 6790805

Fifth Floor
5 Lapp's Quay
Cork
Ireland

Tel +353 21 4272900
Fax +353 21 4277621

Washington Lodge
Newtown
Waterford
Ireland

Tel +353 51 844441
Fax +353 51 844443