

## 1. What is RCT?

Relevant Contracts Tax (RCT) is a Withholding Tax System that applies to payments made by a principal contractor to a subcontractor under a relevant contract i.e. a contract for the carrying out of, or the supply of labour for the carrying out of, relevant operations i.e. **Construction operations**, Forestry operations, Meat processing operations, within the State.

*Please see Appendix 1(A) for a comprehensive list of Construction Operations.*

## 2. Background:

**To-date:** To assist principle up to the 1<sup>st</sup> January 2014, Revenue has only required one contract notification for each subcontractor engaged by the principal.

**Going Forward:** From the 1<sup>st</sup> January 2014, when the principal engages a subcontractor on various contracts, the principal will be required to notify each contract separately, except where the contract can be considered to be an **on-going contract**.

### ➤ **RCT procedures for Units from 1<sup>st</sup> January 2014**

When engaging a subcontractor the following questions must be addressed:

1. Is it an **on-going contractual relationship and is there currently a valid RCT Contract set-up with Revenue?**

OR

2. Must a **new RCT Contract be set-up?**

## 1. What is considered an on-going contract?

On-going Contract as defined by Revenue:

“If a principal contractor engages a subcontractor to perform the **same type of work at a number of sites**, this could be viewed as being an **on-going** contractual relationship provided that:

- The terms of the contract do not change;
- The parties to the contract do not change; and
- The subcontractor does not have to compete for the work on the additional sites (i.e. submit a tender).
- Payments **were** made in the preceding year to the sub-contractor

## 2. When must a new Contract Notification be set up?

- The subcontractor has never been engaged by Galway County Council previously and RCT is applicable
- The subcontractor has to compete (e.g. tender) for new work
- The contractual relationship between the parties has changed e.g. the principal sets up a new entity (e.g. a limited company) for each site; the work description is different to that already in existence under a relevant contract that is in place
- The contractual terms have changed significantly e.g. the payment arrangements have changed from fixed price to piece work;
- No payments were made in the preceding year to the subcontractor.

An [RCT Set-Up Form](#) must be completed by the relevant Engineer, the Supplier and sent to the Accounts Payable Unit for processing.

## 3. VAT – Reverse Charge on Construction Services

Since 1<sup>st</sup> September 2008, the reverse charge basis of accounting for VAT applies to principal contractors and subcontractors involved in construction operations which are subject to RCT.

The following is a summary of the reverse charge basis of accounting for VAT on **construction services** which are within the scope of the **RCT system**:

1. Where a subcontractor issues an invoice to a principal i.e. Galway County Council which is subject to the RCT rules, the subcontractor should not charge any VAT on the invoice.
2. The VAT registered subcontractor should issue an invoice to the principal, which should show the usual information required on a normal VAT invoice, other than the VAT rate and VAT amount. The invoice should include the VAT registered number of the subcontractor, if registered for VAT.
3. The invoice should contain the statement “VAT on this supply to be accounted for by the Principal Contractor”. The subcontractor will normally issue an invoice; however if agreed by both the principal and the subcontractor, the principal may prepare and issue the invoice.
4. The principal will pay the subcontractor for the work performed. This payment should not include VAT.

5. If RCT is deducted at either 20% or 35%, it should be calculated on the invoked amount (i.e. VAT exclusive amount for all construction services with the exception of haulage for hire).
6. The principal contractor must then account for the VAT on the relevant contract in his own VAT return for the period in which the invoice was issued (or correctly due to be issued i.e. within 15 days following the end of the month in which the service was supplied).
7. Where entitled to do so (i.e. where the principal is carrying on VAT-able activities), the principal can claim a simultaneous input credit in its VAT return for the period.

*(Above Extract taken from Relevant Contracts Tax presented by IPASS – Professional Tax Training, November 2013).*

### ➤ **Reverse VAT procedures for Units from 1<sup>st</sup> January 2014**

**Galway County Council as the principal** must abide by the above rules with regard to VAT and self accounting of same on **construction services** which are within the scope of the **RCT system**.

In a situation where a subcontractor is engaged for works such as Repair & Maintenance please note the following:

- Repair is RCT liable and therefore would attract Reverse VAT
- Maintenance is not RCT liable and VAT would be paid directly to the supplier
- If both Repair & Maintenance are included on one invoice, both will be treated as RCT liable and both will attract Reverse VAT, which is **incorrect**.

The **correct approach** would be that, 2 invoices would be received; one for Repair and the other for Maintenance ensuring the invoices are dealt with in the correct manner with regard to RCT & Reverse VAT.

**From the 1<sup>st</sup> January 2014** it will be a requirement that such works, as described above and where appropriate as guided by within Appendix 1(A) & (B), **should be invoiced separately**.

***Appendix 1 (A) – Construction Operations as defined in Section 530 TCA 1997 as amended by the Finance Act 2012.***

“Construction operations” are —

- a. the construction, alteration, repair, extension, demolition or dismantling of buildings or structures;
- b. the construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including walls, roadworks, power lines, telecommunication apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage;
- c. the installation, alteration or repair in any building or structure of systems of heating, lighting, air-conditioning, soundproofing, ventilation, power supply, drainage, sanitation, water supply, burglar or fire protection;
- ca. the installation, alteration or repair in or on any building or structure of systems of telecommunications;
- d. the external cleaning of buildings (other than cleaning of any part of a building in the course of normal maintenance) or the internal cleaning of buildings and structures, in so far as carried out in the course of their construction, alteration, extension, repair or restoration;
- e. operations which form an integral part of, or are preparatory to, or are for rendering complete such operations as are described above, including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works;
- f. operations which form an integral part of, or are preparatory to, or are for rendering complete, the drilling for or extraction of minerals, oil, natural gas or the exploration or exploitation of natural resources;
- g. the haulage for hire of materials, machinery or plant for use, whether used or not, in any of the preceding operations.

**Note:** Haulage for hire under paragraph (g) is not liable to the Reverse Charge VAT. Hauliers should continue to charge VAT as before and the principal should not self account for the VAT, with the exception of Intra-EU haulage (one member state to another) provided by a foreign haulier who is not registered for VAT in the State, in which case the principal is required to self account for the VAT. Haulage is liable to VAT at the standard rate, however haulage outside of the EU is zero rated.

***Appendix 1 (B) - Taken from Relevant Contracts Tax presented by IPASS – Professional Tax Training, November 2013.***

However, while most of the activities contained in the definition above are obvious, there are some peculiarities, such as the following:

- Repair work is liable to RCT, whereas maintenance is not liable to RCT. A difficulty often arises in distinguishing between routine maintenance and a repair. Revenue have stated in a Frequently asked Questions (FAQ) document that where painting is carried out as part of the completion process of a newly constructed building or structure, RCT applies, otherwise painting will be regarded as maintenance and RCT will not apply.
- However, in Operational Guidelines available on the Revenue Website (Appendix 2), painting is viewed as an alteration and liable to RCT, however where the quantity of work is minor, it is not considered sufficient to be subject to RCT.
- External and internal cleaning of buildings and structures carried out in the course of their construction, alteration, extension, repair or restoration is regarded as a construction operation.
- However, external (e.g. window cleaning) or internal cleaning of buildings in the course of normal maintenance is not regarded as construction operations.
- Landscaping services, where this is carried on in connection with a construction operation (e.g. the landscaping of a garden as part of the service of building a house.
- Landscaping services alone are not regarded as construction operations.
- The haulage for hire of materials, machinery or plant normally used in construction operations. Interestingly, the supply and delivery of sand, gravel or concrete by the provider is not a construction operation. However, if the provider/principal were to engage an independent haulier to collect and deliver these materials, this would be a construction operation.

More Information is available at [www.revenue.ie](http://www.revenue.ie)