

Major Relevant Contract Tax Overhaul Underway

New Electronic System likely to take effect January 2012

On Budget day, 7th December 2010, the Minister for Finance announced that significant reforms will be made to the Relevant Contracts Tax (RCT) system to enhance its effectiveness, reduce opportunities for fraud and help decrease the administrative burden for businesses and Revenue. These reforms have now been entered into law and can be found in the Finance Bill (Section 20) (See <http://www.oireachtas.ie/documents/bills28/bills/2011/0811/b08b11d.pdf>).

The changes to the RCT system only apply to the tax rates and to the way the system is being operated. No changes have been made to what constitutes a Relevant Contract or to what constitutes forestry operations.

Revenue is currently engaging with stakeholders to inform the Construction, Meat Processing and Forest Industry about the changes to the new system.

In brief:

- An underlying feature of the new RCT system will be the mandatory use of electronic means for the transfer of information, data, payments and returns.
- All contacts between a principal contractor and Revenue will be through an on-line process. Principal contractors will be obliged to register each Relevant Contract with Revenue on-line. 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, a Principal Contractor must notify Revenue on-line of the gross payment to be made to the sub-contractor. 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.
- Under the new system, there will be three RCT rates: zero%, 20% and 35%. Subcontractors who satisfy the current criteria for a C2 card will qualify for the 0% rate. The standard 20% RCT rate will, in general, apply to subcontractors who are registered with Revenue but do not satisfy the current strict criteria for a C2 card but have established a reasonably satisfactory compliance record. The 35% rate will apply to contractors who are not registered with Revenue or where there is history of non-compliance. Where RCT is applied at the 20% or 35% rate, 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.
- Monthly/Quarterly Return: A deduction summary will be issued to the principal contractor by Revenue, listing all of the payments Revenue has been made aware of. If the summary is correct, the principal contractor 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 deduction summary requires amendment, the principal can amend it on-line and arrange for payment on or before the due date.
- There will be no longer a need to file an annual RCT35 return.

For more information on the changes to the RCT system, see <http://www.revenue.ie/en/tax/rct/rct-changes-2011.html>

Revenue is currently developing the new RCT system. In order to facilitate a smooth implementation of the new system, Revenue requires input from stakeholders with regards to what in house or bespoke software systems principal contractors are currently using for their RCT returns.

Please email itga@eircom.net if your company has any special software requirements and/or if you would like to be included in future stakeholder meetings on the RCT reform.

Mechteld Schuller, Secretary Irish Timber Growers Association