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FINANCE BILL 2016 – IFA PROPOSAL ON SECTION 46, ‘RESTRICTION OF FLAT-RATE ADDITION’

Introduction

The Finance Bill, published on 20th October, contains a proposed amendment to the flat rate scheme for unregistered farmers which could result in a restriction in the flat-rate addition in some circumstances.

Explanation of the Flat-Rate Addition

The Farmers’ Flat Rate Addition is used to compensate farmers who pay VAT on their inputs, and who are not entitled to VAT input credits because they are not registered for VAT.

The methodology used to calculate the annual flat rate involves working out the actual VAT content of all unregistered farmers’ input purchases and expressing this as a % of their sales to registered customers.

This methodology is set out under the EU Sixth Vat Directive, which outlines that the level of refund must be based on actual macroeconomic data for flat rate farmers for the preceding 3 years. This level may be rounded up or down to the nearest half % point, but must not over-compensate farmers for the VAT charged on their inputs.

Every farmer is fully entitled to register for VAT – this generally occurs, where a farmer has significant Vatable inputs, and the 5.4% addition would clearly fall short of the Vatable costs he incurs annually.

Proposed change to restrict the Flat-Rate Addition

Provision is being made in the Finance Bill for the Minister for Finance to restrict the application of the flat-rate VAT scheme for unregistered farmers in certain circumstances. The Bill proposes that, **where the Minister is satisfied, following a review by Revenue, that business models or structures employed within a particular agricultural sector, give rise to systematic excess payment of the flat-rate addition within the sector, the Minister may, by order, prohibit the payment of the flat-rate addition in relation to specified agricultural produce or services.**

The purpose of the amendment is to ensure that systematic excessive VAT recovery, arising from particular structures within a sector, can be prevented. Farmers who are impacted by such an order will have the option to register for VAT and recover VAT incurred on inputs under normal VAT rules. It is proposed that this legislation shall come into operation on 1 January 2017.

IFA position and proposal

The proposed change to the flat-rate scheme for unregistered farmers provides an increase in powers for the Revenue Commissioners and Minister for Finance, to ensure that the flat-rate addition operates correctly. The flat-rate addition scheme is a very important scheme for farmers across all sectors, and it is critical that the integrity of the scheme is protected.



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However, IFA believes that the proposal to implement the revised legislation from 1st January 2017 presents a threat to farmers in certain sectors, who, while wishing to comply fully with the proposed legislation, may need time to review their structures to ensure this is the case. There is a concern in the poultry sector that some structures within this sector could be affected.

The poultry sector is concentrated in a number of counties, providing valuable employment and economic activity in regions of the country where there are not many alternative industry or investment opportunities. The sector competes on the domestic market with large volumes of imports from the UK. The weakening of sterling arising from the UK decision to leave the EU presents a major challenge to the competitiveness and overall viability of the sector. IFA believes that the timeframe for the introduction of the proposed legislation is too short, and would result in significant uncertainty in relation to investment, income and employment in the sector. It is suggested, therefore, that the legislation should come into operation at a later date, to allow time for the stakeholders in the sector to review their structures, and to take any steps that may be deemed necessary to ensure compliance, and to protect the flat-rate addition for products and services in their sector.

IFA proposes that the date for the proposed 'Restriction of the Flat Rate addition', as outlined in Section 46 of the Finance Bill 2016, is amended, and that the legislation would come into operation on 1 January 2018.