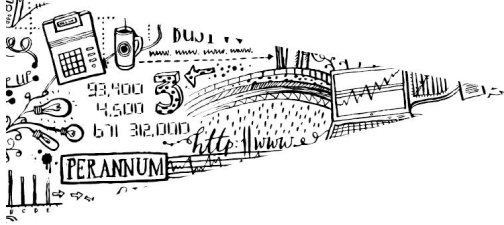


10 November 2011

Tax alert

Ireland

Issue 22/11



Electronic Relevant Contracts Tax – deadline of 11 November fast approaching

Contacts

If you require further information, please call your regular contact in Ernst & Young or contact any of the following:

Dublin

Enda Jordan (*Director*)
E: enda.jordan@ie.ey.com
T: +353 1 4750555
F: +353 1 4750599

Paraic Waters (*Senior Manager*)

E: paraic.waters@ie.ey.com
T: +353 1 4750555
F: +353 1 4750599

Cork

Frank O'Neill (*Partner*)
E: frank.oneill@ie.ey.com
T: +353 21 4805700
F: +353 21 4272465

Limerick

John Heffernan (*Partner*)
E: john.heffernan@ie.ey.com
T: +353 61 319988
F: +353 61 319865

Waterford

Paul Dillon (*Senior Manager*)
E: paul.dillon@ie.ey.com
T: +353 51 872094
F: +353 51 872392

New York (Irish Tax Desk)

Paul Fleming (*Director*)
E: paul.fleming@ey.com
T: +1 212 7738744
F: +1 212 7736672

It is proposed that the current paper-based Relevant Contracts Tax (RCT) system will be replaced by an electronic system effective from 1 January 2012. The introduction of the new eRCT system is subject to a commencement order being signed by the Minister for Finance.

Under the new system, principal contractors will be required to communicate with Revenue electronically in relation to managing their RCT compliance position.

RCT withholding rates

The new eRCT system will have three rates (0%, 20% and 35%). Subcontractors with a valid C2 on 25 November 2011 will qualify for the zero rate for the period 1 January 2012 - 31 March 2012.

To ensure that any new C2 applications are processed in time for the zero rate to apply, Revenue has indicated this week that applications must be submitted by 11 November 2011. Subcontractors who are not registered with Revenue or where there is a serious compliance issue to be addressed will be placed on the 35% rate. All other subcontractors should qualify for the 20% rate. Subcontractors can improve their assigned withholding rate by improving their compliance position.

Non-residents

It is more important than ever that non-Irish resident subcontractors (who are currently not registered for Irish tax purposes) intending to undertake relevant contracts in Ireland in early 2012 approach Revenue with a view to getting a lower rate of withholding tax, as no interim RCT refunds will be made by Revenue under the new regime.

Summary of new system

It is proposed that the new eRCT system will operate as follows:

On entering into a relevant contract with a subcontractor, a principal contractor will be obliged to provide Revenue with details of the subcontractor and the contract on-line, including confirmation that the contract being entered into is not a contract of employment.

Prior to making a payment to the subcontractor under the contract, the principal will be obliged to notify Revenue electronically of its intention to make the payment and state the gross amount to be paid.

Revenue will automatically issue a deduction authorisation to the principal which will set out the rate of withholding that should apply to the payment. The principal must provide a copy of the authorisation to the subcontractor.

Revenue will automatically credit any RCT deducted to the subcontractor's tax record. The RCT credit will be available for offset as it arises or for repayment annually.

As Revenue will have details of the payments notified to them by principals, a deduction summary will be issued to the principal (either monthly or quarterly depending on filing frequency) listing all of the payments Revenue has been made aware of. If the summary is correct, the principal needs only to arrange payment of any RCT due 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 may amend it on-line and arrange for payment on or before the due date.

The legislation contains provisions to impose penalties and surcharges on principal contractors where they have not complied with the new eRCT withholding rules.

Actions

All principal contractors should be taking steps to ensure that they will have access to an electronic system that can cater for the new eRCT system going forward (e.g. ROS) and become familiar with how the new regime will operate.

Subcontractors should review their compliance position to obtain the lowest possible withholding tax rate.

Non-Irish resident subcontractors (who are currently not registered for Irish tax purposes) intending to undertake relevant contracts in Ireland in early 2012 should approach Revenue as soon as possible with a view to getting a lower withholding tax rate.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

About Ernst & Young's Tax Services

Ernst & Young's 170 tax professionals in Ireland provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. Our practice provides one of the most comprehensive networks in Ireland, comprising of some of the country's most respected tax advisors. Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its ambitions. Its how Ernst & Young makes a difference.

For more information, please visit www.ey.com/ie

Ernst & Young refers to the global organisation of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

The Irish firm Ernst & Young is a Member Practice of Ernst & Young Global. It is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business in the Republic of Ireland.

Ernst & Young,
Ernst & Young Building,
Harcourt Centre, Harcourt Street,
Dublin 2, Ireland.

© Ernst & Young 2011. Published in Ireland.
All rights reserved.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.