

Relevant Contracts Tax
Online compliance
The right framework



The Relevant Contracts Tax compliance system is being fundamentally altered. The new online 'eRCT' system is to be operational from 1 January 2012. While the new system has considerable advantages over the old regime significant risks still exist because even minor compliance errors can result in significant tax exposures.

What is RCT?

RCT is a withholding tax which a Principal is obliged to apply to payments made to service providers in respect of payments made for certain services received. From January 2012, three withholding tax rates will be in force; a 0% deduction rate will apply to contractors who satisfy specific conditions, a new standard deduction rate of 20% will apply to contractors who are registered with Revenue with an established compliance record, and a 35% rate will apply to contractors who are either not registered with Revenue or who may have tax compliance issues to address.

Who should operate the RCT system?

RCT should be operated by businesses defined as a 'Principal'. The definition is very broad and includes meat and forestry businesses, property developers, building companies, individuals who are connected with these businesses and financial institutions/NAMA entities now involved in construction activities.

All Government bodies, local authorities, public utilities, boards and bodies established under statute are deemed to be Principals.

In addition, those who are engaged in gas, oil, water, electricity production (e.g. wind farms), dock, canal and railway activities are all Principals. Exploration companies are also Principals, as are Telecommunication companies who subcontract installation projects.

What payments are subject to RCT?

The range of services subject to RCT is very broad and include the following;

- Design and build contracts
- Contracts providing installation services, e.g. power supply, wind farms, heat, light, air-con, telecom systems
- Repair, demolition, site preparation and clearance services (including skip hire)
- Haulage services, crane and scaffolding hire
- Agency services related to the provision of labour
- Operations preparatory, integral to, or rendering complete the exploration, extraction or exploitation of natural resources (minerals, oil, gas)
- Processing, cutting and preserving wood
- Slaughter, processing, packaging, preservation, cold storage, haulage of cattle, sheep, pigs or fowl

The key features of the new system are:

- The standard RCT rate is being reduced from 35% to 20%
- C2 Authorisations will cease to exist
- Contractors who hold a C2 Authorisation will qualify for the zero rate status, provided their tax affairs are kept up to date
- All Principal must engage with Revenue electronically
- Revenue will automatically credit a contractor with any RCT deducted
- Contractors to receive details of Notified Contracts, Payment Authorisations, and notification from Revenue if their deduction rate status changes

- There will be no interim RCT repayments; instead an automatic offset against other taxes will apply
- New penalties and surcharge introduced

How should the new 'eRCT' system be operated?

All Principals are obliged to register with the Revenue Online System (ROS) through which all RCT compliance is to be conducted. In summary, there are four stages in the compliance cycle as follows:

Contract Notification

A Principal must notify Revenue online each and every time a new relevant contract is entered into with a contractor. Specific details regarding the contractor engaged and the contract itself will be required. The Principal will receive a unique contract reference number and an indication of the applicable deduction rate for the contractor.

Payment Notification

Prior to making each payment to any contractor, a Principal must use the eRCT system to notify Revenue of the amount of the proposed payment. Payments must be linked to a specific contract previously notified as above. A Deduction Authorisation will issue to the Principal's ROS inbox immediately.

Deduction Authorisation

The Deduction Authorisation confirms the rate of RCT applicable to the payment and the amount of tax to be deducted. The Principal should provide the contractor with the Deduction Authorisation details. The contractor will also be able to check these on their own eRCT account.

Deduction Summary

Revenue will issue a Deduction Summary at the end of each return period which will detail all of the Deduction Authorisations issued to the Principal for that period. The summary will indicate the amount of tax due based on details input. The summary should be verified and can then be accepted or amended if necessary.

How we can help you?

Whether you are a well-established company or contemplating new contracts, or indeed an international company taking on any construction or related activity including meat, forestry or power supply in Ireland, you need to be aware of your RCT obligation. First and foremost, we can help you identify your obligations in this regard. Our dedicated team can advise Principals and contractors on all aspects of RCT compliance and the appropriate steps and processes required.

We have a wealth of experience in all sectors including construction, property, meat processors, forestry operations, technology providers, power generation, PPPs, rail/transport networks and offshore activities.

We have significant experience in carrying out pre-audit/RCT health checks and preparing voluntary disclosures. Our first-hand experience with Revenue, and our proven ability to negotiate with them, ensures you get comprehensive support with your RCT obligations.

We can also provide training on the practical operation of RCT tailored to suit your specific business needs and any of our RCT services can be provided separately or as part of a suite of tax, audit, consulting and financial services.



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