



RCT Changes affecting Principal Contractors and Subcontractors

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Introduction

On 7th December 2010, the Minister for Finance announced that significant changes would be made to the Relevant Contracts Tax (RCT) system.

The current paper-based RCT system was replaced on **1st January 2012** by an electronic system, where principal contractors are now obliged to engage with the Revenue Commissioners online.

From that date, all principals in the construction, forestry and meat processing sectors are obliged to submit information, data, payments and returns to the Revenue Commissioners electronically.

Main changes affecting Principal Contractors

The key elements of the new scheme which effect principal contractors as outlined in the Act are:

- **Mandatory electronic communication:** RCT principals will be obliged to interact with the Revenue Commissioners electronically so all principals should be registered for the Revenue On-line Service (ROS).
- **Notifying the Revenue Commissioners of a relevant contract:** When a principal enters into a relevant contract with a subcontractor, he/she will be obliged to provide the Revenue Commissioners with details of the contract online, including a declaration that the contract being entered into is not a contract of employment. This process will be known as "Contract Notification" in the new system. The Revenue Commissioners will acknowledge the notification and advise the principal of the current rate of RCT applicable to the subcontractor. There will be no paper RCT 1 or RCT 46/46A forms in the new system.
- **Notifying the Revenue Commissioners of a relevant payment:** Immediately before making a payment under a contract, the principal must notify the Revenue Commissioners (through ROS) of his or her intention to make the payment and state the gross amount to be paid. This process will be known as "Payment Notification" in the new system. There will be no paper RCT 47 (payments card) in the new system.

- **Confirmation of RCT rate to apply to the payment:** Upon receipt of the payment notification, the Revenue Commissioners will immediately issue a "Deduction Authorisation" to the principal (electronically). This authorisation will set out the rate of tax (RCT) and the amount of tax to be deducted from the payment. On making the payment, the principal must give a copy of the Deduction Authorisation to the subcontractor or, if the subcontractor is in agreement, give details of the Deduction Authorisation to the subcontractor. There will be no C2 card in the new system.
- **Completing the periodic return and making the payment of RCT deducted:** The Revenue Commissioners will have all the details of the payments notified to them by principals. Depending on the filing frequency of the principal, a "Deduction Summary" will be issued to the principal, either monthly or quarterly, listing all of the payments the Revenue Commissioners have been made aware of. If the summary is correct, the principal is required 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 summary is not correct, the principal should make the necessary amendments online and submit the return by the due date. The principal should arrange for payment of the RCT deducted on or before the due date. This new process will replace the RCT 30 return.
- **No annual return required:** The annual RCT 35 return will no longer be required from the tax year 2012.

Main changes affecting Subcontractors

The key elements of the new scheme which effect subcontractors as outlined in the Act are:

- In the new system, there will be three rates: 0%, 20%, 35%. The rate that applies will be based on the subcontractor's compliance record.
- Subcontractors who satisfied the current criteria and held a valid C2 card at 17th November 2011 will qualify for the 0% rate.
- In certain limited cases, subcontractors will be placed at 35% e.g subcontractors with serious compliance issues to be addressed.
- All other subcontractors will be eligible for the standard 20% rate.
- When a principal registers a contract, the subcontractor will be notified by Revenue either in writing or via ROS and will be provided with details of the contract.
- When a principal notifies the Revenue Commissioners of a payment to a subcontractor, the principal must give a copy of the Deduction Authorisation to the subcontractor or, if the subcontractor is in agreement, give details of the Deduction Authorisation to the subcontractor. The Deduction Authorisation will set out the gross payment, RCT rate and RCT to be deducted.
- RCTDC's will no longer be issued and subcontractors will no longer have to submit RCTDC claims to the Revenue Commissioners. When a principal notifies the Revenue Commissioners of a relevant payment, Revenue will automatically credit RCT deducted to the subcontractor's tax record. This RCT credit will be available for offset against other tax liabilities as they arise or for repayment annually. If you have current RCTDC's that have not yet been submitted to the Revenue Commissioners you may still claim a repayment so long as the repayment claim is being made to Revenue within 4 years from the end of the period to which it relates.

If you have any queries regarding the new RCT rules, please do not hesitate to contact Victor Angley at our office.

