

Section B - Entering into a relevant contract – Treatment of payments under a relevant contract

Questions frequently arise as to whether a service or supply detailed on an invoice/document is subject to RCT and/or the VAT Reverse Charge.

In considering whether a payment is subject to RCT, **the contract under which the payment is being made must be examined** to determine if it is a relevant contract. If it is a relevant contract, then **all** payments under that contract must be subjected to RCT.

In considering whether the VAT Reverse Charge should apply to a payment, the service/supply on the invoice/document must be examined to determine if it is a construction operation. If it is not a construction operation, then normal VAT rules apply and the payment is not subject to the VAT Reverse Charge.

In practice, the decision on most contracts/payments will be clear cut and the operation of RCT and VAT will be straightforward. Issues are most likely to arise in the case of mixed contracts (repair and maintenance contracts for example See B11).

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B1 What is a relevant contract?

A relevant contract is a contract to carry out relevant operations. In the context of Boards of Management relevant operations will solely be construction operations. Examples of construction operations are set out on Page 3 of the guidelines.

Contracts can be written, verbal or implied and no distinction is made between them.

Where *any part of a contract* is for relevant operations then the contract as a whole is a relevant contract and all payments under that contract are liable for RCT.

The VAT Reverse Charge only applies to payments that are in respect of construction operations, excluding haulage for hire (See Section C).

B2 Should all subcontractors have a tax clearance certificate?

Department of Finance Circular 43/2006, as revised, sets out the procedures to be followed in respect to the award of public sector contracts. In brief, in the case of all public service contracts of a value of €10,000 (inclusive of VAT) or more within any 12 month period, the subcontractor will be required to produce either a valid tax clearance certificate or demonstrate a satisfactory level of subcontractor tax compliance. (The subcontractor can demonstrate a satisfactory level of subcontractor tax compliance by producing a *Subcontractor's Notification of Rate Determination* showing a rate determined by Revenue of 0% or 20 %.) Any queries on the operation of Circular 43/2006, as revised, should be directed to the Department of Finance.

Note that irrespective of whether the subcontractor has a tax clearance certificate or not, the Board must operate RCT, and VAT where appropriate, on sums paid under relevant contracts.

B3 Where the main contractor engages subcontractors, who is responsible for ensuring that payments to those subcontractors are accounted for correctly?

Generally the main contractor is responsible for ensuring that the correct procedures are followed in relation to payments made to subcontractors engaged by them, unless there are special arrangements in the contract awarded to the main contractor. Department of Finance Circular 43/2006 contains some provisions in this regard.

B4 Must every relevant contract be notified to Revenue?

Principal contractors are required to notify each contract separately **unless** the contracts are considered to be part of an ongoing contract with the subcontractor (see next question).

B5 A school has multiple contracts with the same subcontractor. Must each contract be notified separately?

Strictly each contract must be notified to Revenue. However Revenue is aware that many principal contractors are in ongoing or rolling contracts with subcontractors. In schools, these would mainly be maintenance and repair contracts but could include other relevant operations.

Multiple, ongoing or rolling contracts:

Where there is an on-going contractual relationship (also known as a rolling contract) between a principal contractor and a subcontractor, a single contract notification will normally suffice. This includes situations where the jobs do not succeed each other immediately.

The conditions are that

- The terms of the contract do not change;
- The parties to the contract do not change; and
- The subcontractor does not have to compete for the work (i.e. submit a new tender for each contract).

This treatment is covered in more detail in Questions 9 and 10 of the [FAQs \(Principal Contractors\)](#)

B6 Will there be only one Site Identification Number for each school/campus?

In general a new site and a subsequent new SIN should be created for each overall Project. Within this there are possibilities where multiple SINs would exist for the same contract locations – this would occur where those contracts are not related to the same Project. Further information and examples are available [here](#).

B7 What information must a school get from a subcontractor to enable them register a contract.

The subcontractor must provide the school with their name and tax reference number. Other information that the school must supply to Revenue will be available from the contract.

Where the subcontractor does not provide a tax reference number further information will be required. Full details are available at www.revenue.ie/en/tax/rct/contract-notification.pdf

B8 Principal Contractors are obliged to establish the identity of the subcontractor. How should they do this?

There is an onus on the principal contractor to establish the identity of the subcontractor who is party to the contract under RCT legislation. This should be a priority for the school in any case, to satisfy a range of Insurance, Health & Safety and Department of Finance requirements.

The Income Tax and Corporation Tax (Relevant Contracts Tax) Regulations 2012 require a principal contractor to be satisfied as to the identity of the subcontractor. They also oblige a principal contractor to request documentary evidence of identity and to make and retain a copy of the documentary evidence provided, or record and retain relevant details from the documentary evidence given.

There are, therefore, two requirements:

- To be satisfied as to the identity of the subcontractor
- To record the check carried out

A board should establish the identity of any subcontractor before awarding a relevant contract. Where there are ongoing contracts, all parties will be well known to each other and there is no issue. However, the principal will need to check documentary evidence. In the normal course of business, subcontractors will have to provide the board with details such as insurance cover, health and safety compliance, VAT document/invoice etc. and this will normally suffice.

B9 Sometimes an invoice/document will be for an RCT operation while RCT would not apply to other invoices/documents from the same subcontractor. What is the correct procedure?

In looking at specific items on an invoice/document it is important to remember that RCT should be operated where there is a relevant *contract* between a principal contractor and a subcontractor to carry out relevant operations.

If any part of a contract is a relevant operation then all payments under the contract are within the scope of RCT.

It is essential then that the detail of the contract is considered rather than merely looking at each individual invoice/document.

B10 What are the common areas where difficulties arise in determining whether a contract is a relevant contract or not?

In general, the RCT treatment of the construction of new buildings or structures is straightforward and clear cut. Where a contract is for "supply and fit", and the fitting is a construction operation, then RCT will apply to all payments under that contract.

B10.1 What is the distinction between fixtures and fittings?

Fixtures are goods, which have become attached to buildings in such a way that they cannot be removed without substantial damage being caused to the goods themselves or to the building to which they are attached.

As distinct from fixtures, fittings are goods, which, though often attached to buildings, can be removed without substantial damage being caused to the goods themselves or to the building to which they are attached.

Fixtures do not include carpets and other floor coverings (other than floor covering stuck down over its entire surface), cookers, hobs, gas and electric fires.

B10.2 What is the distinction between repairs and maintenance?

Repair: Repair is generally considered to be an operation carried out to fix, mend or restore the building/structure to its previous condition. Examples of repair include the replacement of constituent parts e.g. replacement of glass in a broken window, replace/fix broken tiles, mending faulty boiler. **The repair of a building or structure is considered to be a construction operation, and therefore subject to RCT.** Repairing removable machinery such as computers is not subject to RCT.

Maintenance: Maintenance is generally considered to be work carried out to keep the building, structure or associated lands, driveways etc. in proper or good condition. A maintenance contract is not within the remit of RCT. Routine cleaning is considered to be maintenance and is not subject to RCT. Maintenance includes operations such as cleaning gutters, roofs, carpets etc. and *routine* painting (other than painting of a newly constructed building).

However, if the contract is for maintenance *and* repair, then it is subject to RCT (where the repair related to a building, structure or system).

Repair and Maintenance contracts: If the contract provides for a single consideration for the repair *and* maintenance then RCT should apply to the *full* consideration, whether or not repairs are actually carried out. If the contract provides that a separate charge should apply where repairs are necessary then only the consideration applicable to the repairs is subject to RCT. Each case should be examined on its own merit.

Alteration and Repairs

Many questions arise in relation to the meaning of alteration and repairs. The phrase "alteration and repairs" is used in the legislation in four instances:

- *Buildings and structures*
- *Works forming or to form part of the land*

The **repair** of a building, structure, works forming part of the land or any works that have become part of the fabric of the building is considered to be a construction operation, and is therefore subject to RCT.

To be considered an **alteration**, there must be an element of materiality to the change in the building or structure. What is material? While the example given in the main body of the document says that replacing all windows is a material alteration, it does not say that RCT *only* applies where all the windows are replaced. The alteration must be significant. In most cases it will be obvious if the work is material or not. In a small school, replacing all of the windows in a single classroom might be material. In a large school it might not. There is a judgement call to be made and, once it is made in a reasonable manner, Revenue will accept that the decision to operate RCT or not was made in good faith. Your [local tax office](#) will be able to provide guidance on any specific issues.

- *Systems of heating, lighting, air-conditioning, soundproofing, ventilation, power supply, drainage, sanitation, water supply, or burglar or fire protection.*
- *Systems of telecommunications*

Repairs to systems are within the scope of the RCT legislation. However, many repairs to systems are carried out under maintenance contracts. While maintenance only contracts are outside of the scope of RCT, many contracts that are referred to as maintenance contracts for "systems" also include an element of repair. Where there is any element of repair, for example in servicing contracts, all payments under the contract are liable for RCT. It is important to remember that it is the contract itself that is the defining factor, not the individual invoices/documents issued under the contract.

Again, to be considered an **alteration** to a system, there must be an element of materiality to the change in the system. "Add-ons" to existing systems are not alterations and are therefore outside the scope of RCT.

In relation to telecommunications, this is an evolving area. The installation of a single, stand alone PC is not considered to be the installation of a system of telecommunications. The supply of hardware/software, or an add-on to an existing system, is not within the scope of RCT.

B10.3 Can you give some specific examples?

Again it is important to examine the contract, rather than individual invoices/documents. Where the term invoice is used this should be taken as referring to an invoice or document depending on the circumstances.

The following examples relate to whether RCT applies to the contracts or not. The question as to whether the VAT Reverse Charge applies is set out in Section B11.

Ref	Item	Notes
B10.4	What RCT applies on a contract to supply and install a prefab ?	A prefab is a reasonably large item set in place on a permanent or semi-permanent basis and is considered to be a structure. If there is one contract, RCT applies to all of the payments under the contract.
B10.5	What RCT applies where there are <i>two</i> separate contracts, one for supply of a prefab and one for installation?	RCT only applies to the installation contract.
B10.6	What RCT applies where there are <i>two</i> separate contracts, one for hire of a prefab and one for installation, including groundworks?	RCT only applies to the installation contract.
B10.7	What RCT applies on a <i>single</i> contract for hire and installation (including delivery and groundworks) of a prefab ?	RCT applies to all of the payments under the contract.
B10.8	Does RCT apply to the supply and installation of new lockers for school?	If the lockers can be removed without causing structural damage, then the work is not within the scope of RCT. They do not alter the building or structure.
B10.9	A school is getting a book-shelf fitted along one full wall. Does RCT apply?	<p>There are many types of shelving available. Most do not come within the scope of RCT as they are attached by screws, can be easily removed (fitted rather than fixed) and do not alter the building or structure no matter how long they are.</p> <p>Some shelving is specifically designed (for the specific building or structure) and fixed and becomes an integral part of the structure and would therefore come within the scope of RCT. This however would normally happen at the design stage of the building or in the course of a major revamp.</p>
B10.10	Is the provision of a manned out of hours security presence subject to RCT?	The provision of security personnel would only be liable to RCT if it was specifically included in an overall construction contract.
B10.11	How are lift maintenance contracts that include call outs treated for RCT?	A lift is part of the fabric of a building, a fixture. Alterations or repairs would therefore come within the scope of RCT. If the contract includes any provision for repairs, whether carried out or not, then all payments under the contract are subject to RCT.
B10.12	Does RCT apply to computer repairs and cleaning ?	The repair and cleaning of <i>individual</i> computers is not subject to RCT. However, where there is a repair to a system of telecommunications, RCT applies.

B10.13	Does RCT apply to the installation and configuration of computer access points ?	Extensions to systems already in place such as whiteboards, projectors, connected to an existing computer system, are not considered to come within the scope of the legislation. As a general rule, alterations that become part of the fabric of a building or a structure come within RCT. For example, a contract for rewiring broadband would be within RCT, but supplying and plugging in a router would not. If there are specific queries in relation to whether a "telecommunications" contract comes within the scope of RCT, please send an email with full details of the nature of the work being carried out and the system being installed, repaired or altered to your local Revenue Office
B10.14	Does RCT apply to the supply and installation of Whiteboards in a school?	The supply of whiteboards is not a construction operation. Revenue takes the view that whiteboards are an add-on to an existing system of telecommunications and therefore the installation of them is outside the scope of RCT. They do not constitute the alteration or repair of a system.
B10.15	Does RCT apply to a contract for unblocking drains ?	This is considered maintenance work and therefore not subject to RCT.
B10.16	Does RCT apply to replacing locks on windows ?	Replacing locks on windows would not be considered a repair or alteration that comes within the scope of RCT.
B10.17	Does RCT apply to carpet cleaning ?	Operations such as cleaning gutters, roofs, carpets etc. are considered maintenance and are not subject to RCT.
B10.18	Does RCT apply to painting ?	RCT applies to painting a building as part of an overall construction project as it renders the building complete. Where a painting job is not part of an overall construction project, it can only be a construction operation and subject to RCT if it is considered to be an alteration to a building. This will depend on the facts of the case. If it is a minor painting job, it would not be an alteration it would be classed as routine maintenance and not subject to RCT. However, a major painting job could be considered to contain a sufficient degree of alteration to the building and therefore be subject to RCT (see B10.2).
B10.19	If a school employs a cleaner to clean the school during the summer holidays, is this liable to RCT?	Routine cleaning is considered maintenance and is not subject to RCT. However if the cleaner is employed, and is an employee, then the earnings may be subject to PAYE/PRSI/USC. Guidance on determining whether a worker is an employee or self-employed contractor is available here
B10.20	Boiler Maintenance: Twice a year a school has their boiler checked (maintenance) and, on the last inspection, a repair was carried out. Is the full payment for this invoice liable for RCT?	Taking these four examples together, the Board needs to go back to the original contracts with the service providers, rather than look at individual invoices. Repairs to systems of heating, fire alarms is a

B10.21	Fire alarm service: When the Engineer called, he found a fault on the fire alarm system and had to fit a new smoke detector. Is this liable for RCT?	construction operation. <i>Contracts that are for repair work, or for repair and maintenance, are within the scope of RCT.</i> If there is any element of repair included in the contract (the contract provides for a single consideration for the repair <i>and</i> maintenance), then the contract is a relevant contract and <i>all payments</i> under that contract are subject to RCT. However, if there are separate contracts, one covering maintenance and one covering repairs, then only the consideration applicable to the repairs is subject to RCT. In Revenue's experience, however, such contracts are a rarity. Most maintenance contracts will allow the service provider carry out repairs up to a set amount. If this is the case then all payments under the contract are subject to RCT. Each contract should be examined on its own merit.
B10.22	Fire alarm: An emergency call out to the school as a result of a fault in the alarm system that was fixed by the engineer. Is this charge liable for RCT?	
B10.23	Service call: A security keypad was faulty and the engineer had to replace the keypad? What part of the invoice is liable for RCT?	
B10.24	Can you comment on the correct application of RCT to small electrical repairs/ alterations ?	Repairs to fixtures are within the scope of RCT. Electrical wiring and any connected lampholders, powerpoints and fuseboards etc. are fixtures and therefore within the scope of RCT. On the other hand, decorative lampshades etc. are fittings and do not come within the scope of RCT.
B10.25	The school has had a new cooker and freezer supplied and installed. Does RCT apply?	The supply of a freezer (fridge) or cooker connected to a mains is not within the scope of RCT.
B10.26	Does RCT apply where existing green areas are being landscaped ?	Landscaping is only a construction operation when it is carried out as part of rendering complete a construction project. Contracts for landscaping work entered into by boards of management where the landscaping is not part of an overall construction project are not within the RCT remit.
B10.27	Does RCT apply to skip hire ?	The hire of a skip in the course of construction operations is liable to RCT. RCT does not apply to the hire of a skip to dispose of general refuse.
B10.28	Does RCT apply to the supply and fitting of a new fire extinguisher?	The supply of fire extinguishers is not a construction operation. Fire extinguishers are generally fittings rather than fixtures. Installation of fittings is not a construction operation.
B10.29	Architects Fees	These are professional fees and not subject to RCT. As a board of management is not a designated body they are also not subject to Professional Services Withholding Tax.
B10.30	Does RCT apply to replacing bulbs in an overhead projector?	Replacing bulbs would be treated as maintenance. If, however, the work was carried out under a general contract for maintenance and repair, all payments under such contracts come within the scope of RCT.

B11 Mixed Contracts – operation of RCT and VAT Reverse Charge

As set out in **B1**, where any part of a contract is for relevant operations then the contract as a whole is a relevant contract and all payments under that contract are liable for RCT. *The VAT Reverse Charge, however, only applies to payments that are in respect of construction operations*, excluding haulage for hire. Again, it is essential then that the contract is considered rather than merely looking at each individual invoice/document and this is an important principle that Boards need to consider when operating the RCT and VAT systems.

B11.1 Can you give an example as to how this operates in practice?

A Board engages a subcontractor to build and fit out a gym under a single contract-

Construction costs - €500,000(VAT exclusive)

Fitting out of gym - €100,000(VAT exclusive)

Relevant Contract Tax

RCT applies to all of the payments under the contract. For RCT purposes, the Board must notify the total payment to Revenue i.e. the VAT exclusive payment for the construction PLUS the VAT inclusive payment for the fittings. Assuming for the purposes of the example that only one payment is made to the subcontractor, the Board will make payment Notification as follows:

Construction Service (VAT exclusive)	€500,000
Other service (VAT inclusive)	€123,000
Total payment notification	€623,000

If the subcontractor is at 20%, the RCT liability will be €124,600. The Subcontractor will be paid €498,400 (€623,000 less €124,600) and the total RCT due to be paid to Revenue by the Board is €124,600.

Value Added Tax

The VAT Reverse Charge can only apply to the construction element i.e. the construction of the gym. The subcontractor, therefore, must issue two VAT invoices/documents:

- A document for the cost of the construction of the gym on which the VAT Reverse applies i.e. a Vat reverse charge invoice for €500,000. The Board is accountable for VAT at 13.5%. The document will contain the legend "VAT ON THIS SUPPLY TO BE ACCOUNTED FOR BY THE PRINCIPAL CONTRACTOR".
- A VAT invoice for the cost of the gym fittings that includes VAT at the 23% rate i.e. a VAT invoice for €100,000 plus VAT at 23%. (Not a construction service). The Board must pay the subcontractor the total invoice value of €123,000.

For VAT purposes, only the VAT Reverse Charged amount (for the construction) should be returned by the Board. The Board are not entitled to claim a VAT input for the VAT suffered at 23% on the fittings.

Board will account for RCT and VAT as follows:

VAT on Construction Service €500,000 @ 13.5% is €67,500

(T1 in VAT return) No credit can be claimed for VAT incurred on gym fittings.

Two separate contracts are in place, one for the construction of the gym and one for the supply of the fittings?

As there are two contracts, two invoices/documents should be issued. RCT only applies to the payment under the construction contract.

VAT Reverse charge only applies to the payment under the construction contract.

B11.2 Is RCT calculated on the VAT inclusive or exclusive amount?

Where the VAT Reverse Charge applies, RCT is charged on the VAT exclusive amount. Where the payment is subject to normal VAT rules (i.e. is not in respect of construction services) RCT is charged on the VAT inclusive amount