

# Relevant Contracts tax (RCT)

RCT is a withholding tax regime which applies to certain payments mainly within the energy, telecoms, construction, forestry and meat processing sectors.

## What is RCT?

Relevant Contracts Tax (RCT) is a withholding tax mechanism to ensure those involved in construction, forestry and meat processing operations are tax-compliant.

The legislation obliges a person (the principal contractor) to retain tax from the amount payable to contractors/sub-contractors engaged to carry out relevant operations in the absence of specific Revenue authorizations.

Finance Act 2011 introduced significant changes to the operation of the RCT system. The new online system is effective from 1 January 2012 and all RCT compliance is now conducted online using the Revenue's Online Service (ROS).

The definition of a principal contractor has been extended to include a person who carries out the installation, alteration or repair of telecommunications systems.

## eRCT Compliance System 2012

The Relevant contracts tax compliance system has undergone a complete transformation. The traditional collection of paper based forms, completion of monthly and annual returns, and even the familiar 'C2 card' or 'C2 Authorization' has now been replaced by the new online 'eRCT' compliance system with effect from 1 January 2012.

The definition of a principal contractor has been extended to include those who carry out the installation, alteration or repair of telecommunications systems. 'Relevant operations', i.e. the type of activities to which RCT applies has also been broadened to include the repair or alteration of systems of telecommunications, previously only the installation of such systems was within the scope of RCT.

## ROS registration

From 1 January 2012 all RCT compliance, filing and payments, is conducted online using the Revenue Online System (ROS). All principal contractors should ensure they are registered to use the ROS facility if not already registered. Subcontractors should also register for ROS in order to access details regarding their RCT transactions.

## RCT deduction rates

The new RCT system has three deduction rates, the rate applicable to each subcontractor is determined by their own tax compliance history and status. Subcontractors who are fully compliant and satisfy Revenue of certain criteria have the benefit of a 'Zero' rate of RCT being applied, i.e. they may receive payments without an RCT deduction, provided they keep their tax affairs up to date. The new standard rate for RCT is 20% and is applicable to all registered subcontractors with a good compliance record. The 35% rate, will apply to all other subcontractors, in particular, subcontractors who are either not registered with Revenue for RCT or those who are registered, but may have tax compliance issues to be addressed.

## **eRCT new compliance procedures**

### **Contract notification**

The first step in the eRCT system is to input a “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 is required. The Principal will receive a unique contract reference number and an indication of the applicable deduction rate for the contractor. A principal will need to obtain documentary “evidence of identity” from subcontractors for any new contracts.

A principal is not able to obtain the required Deduction Authorization necessary to make a payment to a subcontractor without first having completed the Contract Notification stage in respect of the particular contract to which the payment relates.

A contract notification acknowledgement issues to the principal’s ROS inbox confirming the details received, this also indicates the RCT rate applicable to the contractor; however, this is for information purposes only. Details of each contract with a subcontractor has to be notified separately and is allocated a unique reference number, however, as a transitional measure for 2012 only one Contract Notification per subcontractor engaged is required. The subcontractor engaged will also receive details of contracts input.

### **Payment notification**

Prior to making each payment a principal must obtain a deduction authorization by inputting a Payment Notification on the eRCT system. A principal should indicate the full amount of the payment due to be made to the contractor. The eRCT system does not have a facility to allow amendments to a Payment Notification, however, if details input are incorrect, the notification may be cancelled and a new Payment Notification can be input. New RCT regulations were introduced and provide where a Payment Notification has been input and the payment is not going to be made, the principal should cancel the Payment Notification.

### **Deduction authorization**

When a payment notification has been made a deduction authorization will issue automatically to the Principals ROS inbox. The deduction authorization will show the applicable RCT deduction rate and the amount of RCT to be deducted. The principal should provide a copy, or, at minimum, the details contained in the deduction authorization to the subcontractor.

Where a principal makes a payment without first obtaining a deduction authorization the principal is liable to RCT at 35% regardless to the deduction status of the subcontractor to whom the payments has been made. In addition to the RCT amount, a penalty up to €5,000, may also be payable in certain circumstances. Revenue will verify the correct tax deduction rate applicable to the subcontractor and an adjustment to the liability for the period may be required. A subcontractor will receive an immediate credit on their tax record for the tax amount which may be set against other taxes due.

### **Deduction summary**

The new eRCT system prepares a pre - populated period end return known as a deduction summary, it is based on the deduction authorizations which issued during the period. The deduction summary is deemed to be the return made by a principal and the amount of tax shown is regarded as the tax liability unless the principal amends and submits corrected

details by the due date. The due date for confirming or amending the deduction summary is the 23rd day of the month following the period end.

A deduction summary displays 'line items' which details each deduction authorization issued in respect of payments to subcontractors during the period. If the information is correct the deduction summary may be accepted or the details can be amended before the return due date. Where a principal amends any details on a deduction summary after the due date for that period an automatic surcharge of €100 will apply in addition to the tax due per the amended return.

### **No interim RCT refunds under new system**

The reduction in the standard deduction rate to 20% is welcomed, however, subcontractors are no longer able to apply for interim refunds of RCT deducted during the tax year. Instead, any tax deducted is credited against other tax liabilities the subcontractor may have. Any excess may only be refunded after the income/corporate tax return for the chargeable period has been filed and paid.

### **RCT refunds**

Both resident and non-resident contractors may seek refunds/offsets of RCT withheld within the statutory four-year time limit.

### **Relevant Contracts Tax – Revised penalties from the 1 January 2015 for the failure of a principal contractor to operate Relevant Contracts tax correctly on relevant payments to a subcontractor.**

A principal is obliged under section 530F of the Taxes Consolidation Act, 1997 to deduct tax from payments to subcontractors in accordance with the deduction authorization which has issued. Section 17 of Finance Act 2014 introduced a revised sanction where principals fail to operate Relevant Contracts Tax (RCT) on relevant payments to subcontractors. The penalty that a principal will be liable for will be proportionate to the amount of the tax that should have been deducted. The principal will be liable for a penalty for each instance of non-operation of RCT after 1 January 2015 and this will be based on the status of the subcontractor.

- Where the subcontractor is registered with Revenue and is fully tax compliant and thus liable to a RCT deduction rate of zero, the principal will be liable to a civil penalty of 3% of the relevant payment.
- Where the subcontractor is registered with Revenue and is substantially tax compliant and thus liable to a RCT deduction rate of 20% - the principal will be liable to a civil penalty of 10% of the relevant payment.
- Where the subcontractor is registered with Revenue and is not compliant and thus liable to a RCT deduction rate of 35% - the principal will be liable to a civil penalty of 20% of the relevant payment.
- Where the subcontractor to whom the payment was made is not known to Revenue – the principal will be liable to a civil penalty of 35% of the relevant payment.

In all the above instances the principal will be required to submit an unreported payment notification to Revenue.