

A guide to...

The VAT reverse charge for the construction sector

You may already be aware that new accounting procedures are being introduced on 1 March 2021, which will impact upon any VAT-registered construction business that does the following:

- Buys in construction services from other builders and makes an onward supply of those services to another customer
- Sells construction services to other builders who then make an onward supply of the same services to their own customer

The charge applies to standard (20%) and reduced-rate (5%) VAT services:

- for individuals or businesses who are registered for VAT in the UK
- reported within the Construction Industry Scheme

So, what is changing and why?

Under current rules, a builder charges VAT to a customer, collects the VAT accordingly and accounts for it in Box 1 of the relevant VAT return.

This procedure is changing for certain supplies between VAT registered builders. From October, where work falls within scope of the domestic VAT reverse charge, the builder will invoice his customer without charging VAT. The customer will instead make the necessary Box 1 entry on his own VAT return.

HMRC deems that certain builder supplies have been prone to VAT fraud, where the supplier charges VAT to the customer and receives the money but never declares it on a VAT return. The new procedure is intended to prevent these occurrences, since the supplier is never paid VAT in the first place.



When does the VAT reverse charge apply?

If you are supplying building and construction services, the VAT reverse charge applies if your customer is registered for VAT in the UK; the payment for the supply of the construction service is reported under the Construction Industry Scheme (CIS), and if the services you supply are standard or reduced rated for the purposes of VAT.

Similarly, if you are purchasing building and construction services, the VAT reverse charge applies where the payment for the supply is reported under the CIS and the services are standard or reduced rated.

If the customer is utilising the end user, or intermediary supplier exemption then the VAT reverse charge does not apply. This is also true where the reverse charge works on an invoice make up less than 5% of the total invoice value.

An example...

A subcontractor makes a supply to 'ABC construction', a main contractor who is VAT and CIS registered. The supply is subject to the domestic VAT reverse charge.

The subcontractor would issue an invoice to ABC Construction, for the appropriate amount less VAT – e.g., £15,000. The subcontractor will declare the sale in Box 6 of his VAT return i.e., outputs.

ABC Construction will account for output tax of £3,000 (20% VAT) in Box 1 of their return. The same will be claimed as input tax in Box 4. The net value of £15,000 is recorded in Box 7.

Other issues to consider

Both parties have their own responsibilities to observe, in respect of the new rules. Of particular importance is the responsibility of the 'end user' or 'intermediary supplier' to write to the sub-contractor advising them of their status. This is intended to ensure both parties are clear on whether the supplies should be subject to the reverse charge.

Where it deems that VAT has been paid incorrectly, HMRC could raise an assessment.

Construction businesses should ask themselves the following questions:

- Which supplies and/or, purchases may fall within scope of the reverse charge?
- What changes need to be made to invoices to reflect the charge – i.e., alternative wording?
- Can current accounting systems and software deal with the reverse charge?
- Are there any staff responsible for VAT accounting within the business, and are they familiar with the new rules?

How can George Hay help?

We can help those affected to make any necessary changes, in respect of accounting procedures and software, to accommodate the new rules.

We will also work with you to ensure that you know how to process affected transactions correctly, after 1 March 2021, and that you understand how the rules may impact upon your cash flow.

With the implementation nearing, it's worth speaking to any VAT-registered subcontractors or main contractors that you work alongside, to ensure that you and they know exactly what is required under the new rules.

If you anticipate that you might be affected by the upcoming changes, contact us today.

You can also read more about the new VAT reverse charge rules on our website, [here](#).



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