

VAT REVERSE CHARGE FOR CONSTRUCTION SERVICES



The VAT domestic reverse charge for building and construction services is now scheduled to come into effect from 1 March 2021. The original introduction date was changed from 1 October 2019 to 1 October 2020 and revised again in June 2020 due to the impact of the coronavirus (COVID-19). The legislation has not changed since it was enacted in 2019 except for a useful alteration to the requirements placed on 'end users' and 'intermediary suppliers'.

The reverse charge represents part of a government clamp-down on VAT fraud. A domestic reverse charge means that a contractor receiving a supply of specified construction services must account for the output VAT due, rather than the subcontractor who supplied the services. The contractor also deducts the VAT due on the supply as input VAT, subject to normal VAT rules, meaning no net tax is usually payable to HMRC. The reverse charge thus removes the scope to evade any VAT owing to HMRC by the subcontractor.

The charge affects only supplies at standard or reduced rates where payments are required to be reported via the Construction Industry Scheme (CIS). It does not apply:

- to zero-rated supplies
- to services supplied to consumers, 'end users' or 'intermediary suppliers' who have given written confirmation of their status to their supplier in respect of the services supplied
- to an employment business supplying either staff or workers.

HOW WILL THE SCHEME WORK?

A VAT-registered business supplying 'specified services' to a VAT and CIS registered business other than an end user or intermediary supplier:

- issues a VAT invoice indicating the supplies are subject to the reverse charge and that the customer must account for the VAT. The invoice does not therefore charge any amount for VAT. It should, however, state how much VAT is due, or the rate of VAT, if the VAT amount cannot be shown.

The business receiving the supply of specified services:

- does not pay output VAT to its supplier on supplies received from them
- accounts for the output VAT on supplies received through its VAT return
- reclaims the VAT on supplies received as input tax, subject to normal VAT rules.

Example

Safe as Houses Ltd is a VAT and CIS registered contractor. It uses Brickyard Bill, who is also VAT and CIS registered. Brickyard Bill issues an invoice which shows the usual information required to be shown on a VAT invoice but instead of charging VAT, the invoice states that the VAT reverse charge applies.

Safe as Houses does not pay VAT to Brickyard Bill. It accounts for the VAT on its own VAT return, entering it as both output and input tax. It enters the value of the purchase from Brickyard Bill as part of its inputs. It does not include the value in its outputs.

Their VAT returns will look like this:

- Brickyard Bill puts the net value of the sales in box six of the VAT return, but no output tax in box one
- Safe as Houses uses box one to declare the output tax on the services from Brickyard Bill to which the charge applies. It doesn't include the value of the transaction as an output in box six. It reclaims the input tax on reverse charge purchases in box four and includes the net value of purchases in box seven.

SPECIFIED SERVICES

Generally construction services covered by the reverse charge are those falling within the category of 'construction operations' for the CIS. There are two particular points to note.

- The reverse charge includes goods, where supplied with specified services. This is different from the CIS, where CIS payments to subcontractors who are subject to income tax deductions are apportioned to exclude the materials content.
- Services excluded from the definition of construction operations for the CIS are similarly excluded from the VAT reverse charge where these are supplied on their own. But where such services are supplied with services subject to the reverse charge, the whole supply is subject to the reverse charge, as is the case for the CIS.

HMRC guidance provides a '5% disregard' if the reverse charge on the supply is 5% or less of the value of the whole supply. For example, a joiner constructing a staircase offsite then installing it on site is making a reverse charge service unless the value of the staircase is 5% or less of the overall charge.

Also, if there has already been a supply of goods to a construction site, any subsequent supply of goods to the same parties may be treated as a separate supply. Where there is a contract to agree. Where there is no contract, the reverse charge should apply to the supply of goods subject to the CIS.

END USERS

The domestic reverse charge applies to supplies to end users throughout the UK. End users are individuals or businesses who are not registered for VAT and are not acting as construction subcontractors.

An example of an end user is a homeowner who is having an office fitted in their home. A new office is being fitted as a new construction service. The homeowner is not a subcontractor.

However, a contractor who is providing a contract for a new office fit will be providing a normal VAT supply. The contractor is not an end user and the construction service is not a reverse charge service.

Intermediary suppliers are those who supply goods and services to end users. They are not end users themselves but can be landlords and tenants. They are not providing services within a group.

HOW TO DETERMINE IF SUPPLIES ARE BEING MADE TO END USERS OR INTERMEDIARY SUPPLIERS

Businesses need to know when they are dealing with an end user or intermediary supplier, so that they can invoice appropriately. To avoid difficulties that may have arisen to suppliers, an amendment to the legislation requiring end users and intermediary suppliers to notify their suppliers of their status in respect of a particular construction service contract.

If no confirmation is given, the supplier should issue a reverse charge invoice.

The confirmation needs to be 'in writing' or in a written agreement (for example, a contract). HMRC interprets the notification requirements as being satisfied if made on paper and sent by post or electronically in an email.

If you are a supplier of construction services and have any doubt on the correct VAT treatment, you should always ask the customer if they are registered for VAT and the CIS. Normal VAT rules continue to apply to such customers.

If you often deal with end users or intermediary suppliers, you can include a statement in your terms and conditions to say you assume that your customer is an end user or intermediary supplier unless they say they are not. This places responsibility on the customer to respond if this is not the case.



HMRC GUIDANCE

For more information on the reverse charge, visit the HMRC guidance. This link sets out the details of the reverse charge and provides further guidance:

There is also a technical guide: [HMRC's technical guide to the reverse charge](#). This guide has a list of contents and a search function to your particular situation. Since there are two types of reverse charge, you need to be taken to the relevant section.

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The Flat Rate of VAT applies to supplies of services longer than 12 months from the start of the contract in good faith. For more information on the Flat Rate of VAT, visit the HMRC guidance. This link sets out the details of the Flat Rate of VAT and provides further guidance:

The reverse charge means that the construction industry is subject to considerable HMRC scrutiny in the new reverse charge regime. The reverse charge may highlight that some construction businesses may not have been correctly classified in the past. For these reasons, we would recommend taking stock of VAT and CIS compliance across the board.

Please contact us for an in-depth discussion, or for advice on cashflow and financial management strategies to help your business adapt successfully to the new regime.



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