

## **VAT Reverse Charge for Construction Services**

The Domestic Reverse Charge for VAT will be a massive change to the way VAT is collected and accounted for in the building and construction industry. It comes into effect from 1<sup>st</sup> October 2020.

The Government introduced this change in order to prevent VAT fraud in the construction sector. The new regime will require a VAT-registered business which supplies certain construction services to another VAT-registered business for onward sale to issue a VAT invoice stating that the service is subject to the domestic reverse charge. However, the recipient, rather than the supplier, will have to account for and pay the VAT, rather than paying the VAT to the supplier.

This will place a big burden on construction individuals and organisations as it will impact accounting practices and cashflow. Changes will be required to traders' sales administration and accounting systems and staff will need relevant training.

### **Construction Services affected by the Domestic Reverse Charge**

The reverse charge will affect supplies of building and construction services supplied at the standard or reduced rates that also need to be reported under CIS.

The reverse charge does not apply if the service is zero rated for VAT or if the customer is not registered for VAT in the UK.

Employment businesses who supply staff and who are responsible for paying the temporary workers they supply, are not subject to the reverse charge.

You will have to apply the reverse charge if you supply any of these services:

- constructing, altering, repairing, extending, demolishing or dismantling buildings or structures (whether permanent or not), including offshore installation services
- constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours
- pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence
- installing heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems in any building or structure
- internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration
- painting or decorating the inside or the external surfaces of any building or structure
- services which form an integral part of, or are part of the preparation or completion of the services described above - including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works.

### **End users**

The reverse charge does not apply to consumers or final customers, i.e. end users, of building and construction services, for example, organisations in retail, manufacturing, utilities and property investment sectors as well as public bodies. They are businesses, or groups of businesses, that do not make onward supplies of the building and construction services in question.

Any end users who are registered for VAT and CIS will need to ensure their suppliers do not apply the reverse charge on services supplied to them. A typical notification would be: “We are an end user with regard to VATA 1994, S 55A reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT being charged at the appropriate rate. We shall not be accounting for the VAT reverse charge.”

### **Invoicing for Domestic Reverse Charge**

Invoices for construction services subject to the Domestic Reverse Charge should include all the information required on a normal VAT invoice. However, it must also make clear that the Domestic Reverse Charge applies and that the customer is required to account for the VAT. Suggested examples of suitable wording:

- “Reverse charge: VAT Act 1994 Section 55A applies”
- “Reverse charge: VATA 1994 S 55A applies”
- “Reverse charge: Customer to pay VAT to HMRC”.

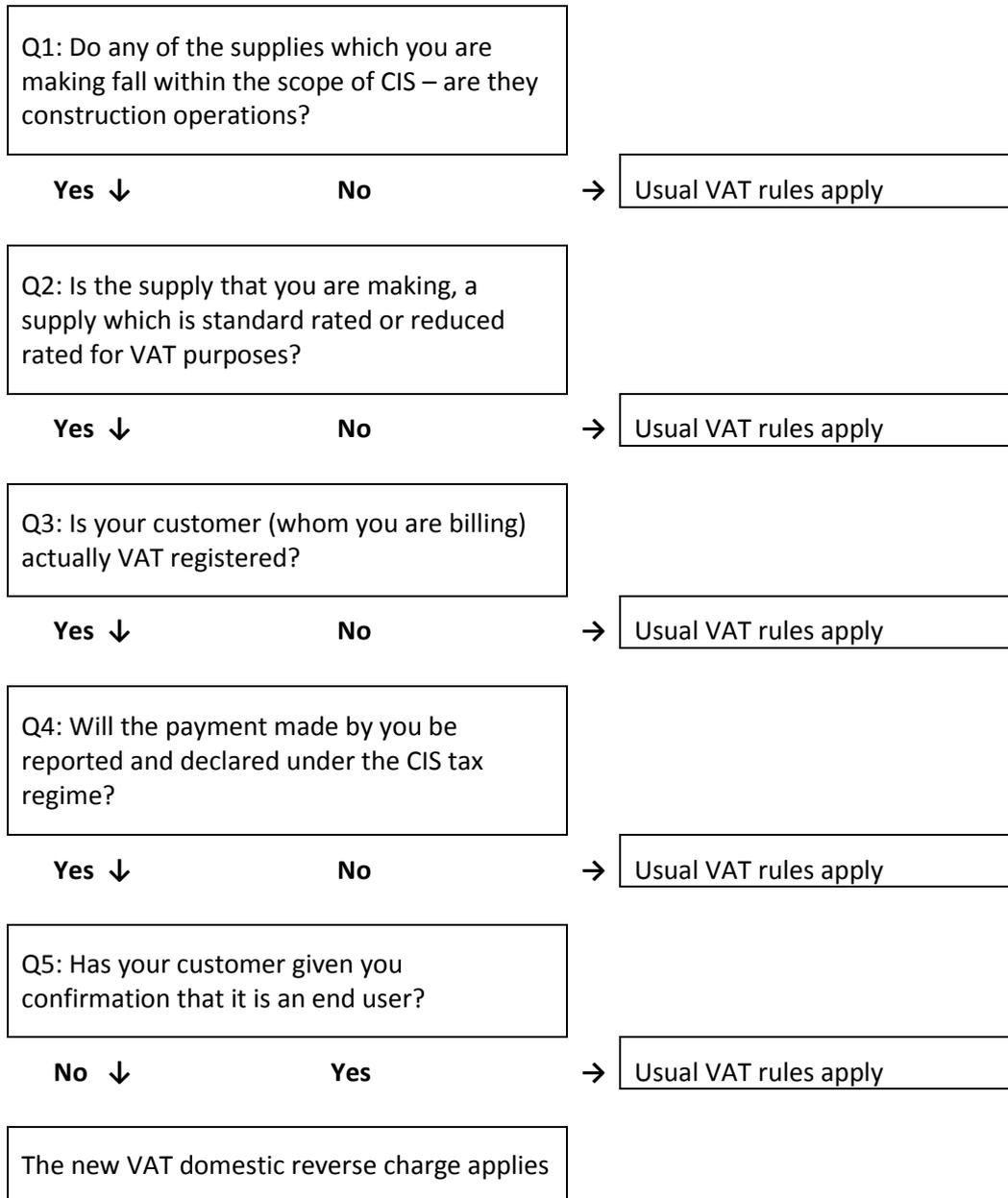
### **Construction Businesses - What should you do?**

- Review your supplies to and from other VAT-registered contractors – will they be subject to a reverse charge from 1<sup>st</sup> October 2020?
- Obtain notification from your customers on whether they are end users and confirmation of their VAT and CIS status. Review contracts to ensure this information is captured for all customers.
- Update your accounting and invoicing systems so that the reverse charge is correctly applied. Reverse charge services are not counted towards the VAT registration threshold. As VAT amounts should be shown on Reverse Charge invoices, there is a risk that suppliers will account for the VAT to HMRC in error.
- Consider any impact on cashflow from 1<sup>st</sup> October 2020 if you previously relied on VAT collected from customers as working capital until you had to remit to HMRC.
- Subcontractors should review their cashflow projections as there may be a good argument to change to monthly VAT filing to recover input VAT promptly.
- Businesses currently accounting for VAT under the Cash Accounting Scheme will have to change to invoice-based accounting.

### **Flowchart**

For Subcontractors – the flow chart below may help you decide whether the VAT Domestic Reverse Charge applies:

## Flowchart - VAT Reverse Charge for Construction Services



For more information get in contact with your Accountant at Daly Park.

HMRC has a very informative page on the Domestic Reverse Charge, giving more detailed advice:  
<https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services>