



Imminent VAT Changes for the Construction Industry

Factsheet

Domestic reverse charge

Implementation date – 1 October 2019

What is changing and why?

HMRC's new **domestic reverse charge** for certain construction services comes into force on 1 October 2019.

From 1 October 2019, VAT registered UK businesses supplying certain construction services must not charge VAT where their customer:

- Is registered for VAT in the UK; and
- Will use the services to make an onward supply of construction services.

Instead, the recipient of the services (the customer) must self-account for VAT (reverse charge) on the services.

These changes are being implemented by HMRC to combat trader fraud in the construction sector as HMRC believe some construction businesses are charging VAT to their customers and then disappearing before paying it over to HMRC.

Which construction services does the new domestic reverse charge apply to?

The domestic reverse charge will affect supplies of building and construction services which are supplied at the standard or reduced rates of VAT and that also need to be reported under the **Construction Industry Scheme (CIS)**.

This includes (but is not limited to) services such as construction, alteration, repair, extension, painting and decorating, demolition, civil engineering, and installation of heating, lighting and air-conditioning.

Professional services of architects, surveyors and consultants are excluded. However, where they are supplied as a package together with other 'construction services', the whole package will be subject to the domestic reverse charge.

When do the new rules not apply?

The domestic reverse charge will apply to the specified construction services, **unless**:

- The services are supplied to an end user i.e. a property owner or a main contractor that sells or lets the new building;
- The recipient makes onward supplies of construction services to a connected company;
- The recipient is not VAT registered or required to be VAT registered;
- The recipient is not registered for the CIS;
- The supplier and recipient are landlord and tenant; or
- The supplies are zero rated for VAT purposes.

What do you need to do if you are a recipient of construction services?

You should review your agreements with your suppliers/subcontractors to assess whether you will be affected.

If you are affected, you should confirm the following to the relevant suppliers/subcontractors:

- Your VAT and CIS status;
- Your VAT registration number; and
- Whether you are an 'end user' i.e. a main contractor that is intending to sell or let the new building.

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If you issue self-billing invoices, you should include the suppliers name, address and VAT registration number on the invoice and include wording such as - 'Reverse charge; we will account for and pay the output tax due to HMRC'.

You will need to ensure your accounting software can account for the domestic reverse charge.

Entries required on your VAT return - illustration

The following illustration shows how a recipient would account for VAT when receiving a domestic reverse charge supply valued at £10,000 and liable to the standard rate of VAT:

Calculate VAT at 20% of £10,000 (£2,000 VAT);

- You will pay VAT of £2,000 in Box 1, and claim it back in Box 4 (subject to the normal rules);
- Include £10,000 in Box 7;
- You should not enter the net purchase value in Box 6.

What do you need to do if you are supplier (subcontractor) of construction services?

You should review your agreements with your customers to assess whether you will be affected.

If you are affected, you should confirm with the relevant customers whether they are:

- Registered for VAT in the UK;
- Registered for CIS;
- An 'end user' i.e. a main contractor that is intending to sell or let the new building.

When invoicing your customer you should produce your normal VAT invoice which clearly states the rate of VAT applicable but make it clear that the domestic reverse charge applies and that the customer is required to account for VAT, wording such as 'Reverse charge: VAT Act 1994 Section 55A applies' or 'Reverse charge: customer to pay VAT to HMRC' would suffice.

You should carefully consider your cash flow position as you will no longer be receiving VAT from your customers. You may need to renegotiate your payment terms with your customers as a result.

If you are a VAT registered subcontractor, you should find yourself in a regular VAT repayment position. You could consider submitting monthly VAT returns to expedite the VAT repayments.

Entries required on your VAT return

A supplier of domestic reverse charge services will simply include the value of the supply in Box 6 of the VAT return.

Who can help me and where can I find out more information?

The team at Elsby & Co can help you with any queries you have.

HMRC have produced a handy flowchart to assist you in deciding whether the domestic reverse charge applies, please click [here](#) and HMRC's guidance is available [here](#)

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