

CONSTRUCTION INDUSTRY VAT REVERSE CHARGE UPDATE



From 1 October 2019 a reverse charge for VAT will apply to building and construction services. It will affect you if your business makes or receives supplies which are covered by HMRC's construction industry scheme (CIS) and you are registered for VAT.

In simpler terms the reverse charge means that when, on or after 1 October 2019, you bill a customer for services to which the CIS applies you must not charge VAT. The other side of the coin is that when you receive supplies of CIS services you must account for VAT (charge yourself VAT) at the appropriate rate (standard 20% or the lower 5% rate or 0%) and on the same return reclaim the VAT if entitled to according to the usual rules. HMRC released a brief guidance note on the reverse charge in November 2018, [CLICK HERE](#) for link and on 7 June 2019 it published brand new extended guidance. [CLICK HERE](#) for link

The reverse charge will not apply where:

- Services are supplied to the end user, such as the property owner, or directly to a main contractor that sells a newly completed building to the customer
- The recipient makes onward supplies of those construction services to a connected company
- The supplier and recipient are landlord and tenant or vice versa, or
- The supplies are zero-rated.

The receipt of reverse charge services will not count towards the VAT registration threshold for a business, which is good news for smaller businesses.

Impact of the reverse charge

- To determine whether the reverse charge applies, it will be necessary for contractors to disclose to their subcontractor whether or not they are at the end of the supply chain – information which could, in some cases, be commercially sensitive
- If the end user does not provide its supplier with confirmation of its end user status, the end user will be responsible for accounting for the reverse charge

Action points

Construction businesses should:

- Review supplies made to and received from other VAT registered contractors to establish whether these will be subject to a reverse charge from 1 October 2019
- Consider the impact on their cash flow from 1 October 2019 of not receiving the VAT from their customer and if there are any ways to mitigate this impact

You will need to change the settings in your bookkeeping and invoicing software to account for and report the reverse charge correctly on your VAT returns so that:

- Where you are the supplier, no entry in Box 1 (VAT on sales etc.) is made for CIS goods or services, but the value of such sales is included in Box 6
- Where you are the customer you must enter Box 1 the VAT on purchase subject to the reverse charge. Do not enter the value of the purchases in Box 6. Also, include the amount of reverse charge VAT you're entitled to reclaim in Box 4
- If you use invoicing software make changes to ensure that VAT isn't added for supplies where the reverse charge applies

Finally, additional clarity is required from HMRC in the coming months on:

- The treatment for construction works which may have been supplied or contracted for before 1 October 2019, but paid for afterwards
- What happens if a customer either ceases to be, or becomes, an end user during a contract

Please contact a member of our team for further information or assistance, on the construction industry VAT reverse charge. Please call 01753 888211 or email info@nhllp.com.