



VAT domestic reverse charge within the construction industry

Although we have known about the new rules since 2017, please find below the key information in relation to the changes that come into effect on 1 October 2019.

The BIG change

The reverse charge regime makes it the responsibility of the recipient of the service to account for the output tax on the transaction, rather than the supplier.

Therefore, if you buy in the services of a subcontractor in the course of your business, it will be your responsibility to account for the output tax on the transaction.

The reverse charge will cover the provision of construction services whether they are 'labour only' or supplies that include materials such as 'supply and fit'. The new rules are specifically for businesses that buy and sell construction services that are reportable under the Construction Industry Scheme (CIS).

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.

The new rules will **not** affect the following transactions:

- supplies that are zero rated
- supplies of construction services between connected parties
- supplies between landlord and tenant
- services to an end user, such as construction services being supplied to a shop for a new fit out, or services to a property developer that sells newly built properties to their customer. If you consider yourself to be an end-user, you must let your subcontractors know to prevent them from applying the reverse charge to their sales invoice. Please find below some wording for your communications:

'We are an end user for the purposes of section 55A, VAT Act 1994 reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge.'



Practical points

1. Any invoices raised under the new regime will contain the same details as a VAT invoice.
2. You must make it clear that the reverse charge applies by caveating any reverse charge invoices with the following statement:
'Reverse charge: VAT Act 1994, Section 55A applies'.
3. You must ensure that the customer knows how much output tax to declare to HMRC.
4. For the purchase of subcontractors' services, you will declare their output tax in box one of the VAT return and reclaim it (subject to the normal rules) in box four of the return. You will pay your supplier the net amount as per the invoice. If you are a subcontractor that solely raises sales invoices under the new rules, you will find that each time you submit a VAT return, you will be owed money from HMRC (input tax on purchases) because you have no output tax to declare.

Action points

- If you are an end user, make sure your suppliers know so that they can treat the sale correctly when invoicing.
- Speak to your customers to see if they are end users and update your accounting records accordingly.
- Make sure your accounting system is ready by having a reverse charge tax code set up for either sale or purchases, or maybe both.
- Make sure your accounts team is familiar with the new rules.
- Change to monthly VAT returns to improve cash flow if, as a consequence of the new rules, your business will be in a repayment position.
- If you are on the flat rate scheme, please check whether it is still beneficial to use the scheme.
- Cash accounting businesses can continue to operate as such on supplies that fall outside of the scheme. You may find that it is no longer beneficial to use the scheme on such supplies. If so, you can withdraw from using the scheme.

HMRC updated guidance

HMRC have recently published some comprehensive guidance for the new rules. This can be found at <https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services#services-affected-by-the-domestic-reverse-charge>

We have picked out some of the important points below:

- If the recipient of the service is not VAT registered, the amount subject to the reverse charge will not count towards their VAT registration threshold. This is good news for smaller businesses.
- If you have several existing contracts with the same subcontractor over various sites, HMRC will allow you to apply the reverse charge to all contracts if the new rules would apply to more than 5% (that can be volume or value) of the contracts with that subcontractor.
- HMRC have stated that there will be a soft landing period for the first six months following the introduction of the new rules, provided the business has tried to comply with the new rules and acted with good intention.
- HMRC have said that the reverse charge will not apply to employment businesses who supply construction staff rather than construction services.
- For single payment contracts spanning 1 October 2019, the tax point will determine whether the reverse charge rules apply. If the tax point is before, VAT will be accounted for using the normal accounting. For tax points after 1 October 2019, the reverse charge will apply.
- For self-billing invoices, the tax point is normally the date the supplier receives payment.
- The tax point for the retention element of the contract is delayed until payment is received or a VAT invoice has been issued for it (whichever is earlier).
- The table below explains the transitional arrangements for how the VAT treatment is determined for payments due on any supplies entered into your accounting system before 1 October 2019, but paid on or after 1 October 2019.

| Date entered in customer's accounting system | Date payment made | VAT Treatment |
|--|----------------------------|-------------------------|
| Before 1 Oct 2019 | On or before 31 Dec 2019 | Normal VAT rules |
| Before 1 Oct 2019 | On or after 1 January 2020 | Domestic reverse charge |
| On or after 1 Oct 2019 | On or after 1 Oct 2019 | Domestic reverse charge |

If you have any questions regarding the new reverse charge rules for 'specified services', please contact [Michelle Dale](mailto:m.dale@uhy-uk.com) at m.dale@uhy-uk.com or your usual UHY contact.

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