

Guest Blog

VAT Reverse Charge for the Construction Industry

From 1st October this year, what's termed the VAT domestic reverse charge for construction services will be introduced.

The impact of this new ruling on businesses in the construction industry is likely to be significant. It will affect VAT-registered traders involved in the construction, alteration and repair of buildings including carpenters, electricians, plumbers, painters, air-conditioning companies and builders.

The domestic reverse charge essentially means that the customer receiving the service has to account for the VAT to HMRC instead of the supplier and then the customer can also recover this VAT subject to the usual rules for VAT recovery on the same VAT return through boxes 1 and 4. The net effect of this is to cancel each other out to £nil.

The supplier of the service would raise an invoice with no VAT which must state that 'Reverse Charge S55A VATA 94 applies, customer to pay the VAT to HMRC' and report £nil in box 1 and the amount in box 6 of their return.

Please note that the domestic reverse charge does not apply if the service is zero rated, or if the customer is not registered for VAT, or if the service is supplied to the end user. And don't be fooled by the term 'domestic' which implies a house or residential supply when in fact the term means UK.

What's the impact on your construction business?

The onus will be on the contractor to verify the correct VAT rate to be used for the reverse charge. What this could mean in reality is that VAT-registered contractors and traders will need to take some extra steps to identify customers they trade with that could be liable to account for the VAT reverse charge. They will have to check they've any relevant VAT registration numbers for 'customers' and evidence that a customer is an 'end user' or not, so that VAT can be invoiced correctly. This new ruling could equally be a challenge for VAT-registered end-users who may not even be aware of the need to provide evidence.

How can I get my business ready for this?

The domestic reverse charge is a massive change so we would suggest you do the following:

- Read the HMRC guidance as it is essential you understand how the scheme works [VAT: domestic reverse charge for building and construction services - GOV.UK](#)

- The HMRC guidance (above) includes a great flowchart to help you decide whether to apply the normal VAT rules or to apply the domestic reverse charge
- Check whether the domestic reverse charge affects either your sales, purchases or both
- Contact your regular clients or suppliers to let them know and speak to them about who is the end user
- Check your accounting systems and software are updated to deal with the charge on your sales invoices and VAT return
- Consider whether this will have an adverse impact on your cash flow (i.e. you may become a repayment trader as you no longer pay the VAT on some of your sales to HMRC and reclaim the input VAT suffered which puts you into a repayment position. In this instance it may help your cash flow to change to monthly VAT returns)

This is quite a step-change in the way that VAT is charged across the construction industry and cannot be ignored. This new change is imminent, coming in before the ink has dried on Making Tax Digital for VAT so it is worth getting some sound advice.



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