



# M+A Partners

- + Business Advisers
- + Tax Specialists
- + Chartered Accountants

## VAT: New reverse charge for building and construction services

---

**M+A Partners** has been helping clients to grow their businesses and achieve their ambitions for over a century - and we're immensely proud of our history.

We are a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by eight partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over ninety staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

### Important VAT accounting change for construction supplies effective 1 October 2020

A domestic VAT reverse charge is being introduced for certain building and construction related supplies, changing the way in which the VAT on supplies is accounted for.

Rather than the supplier (or sub-contractor) charging and accounting for the VAT, the customer (or building contractor) will account for it themselves, hence the 'reverse charge.'

---

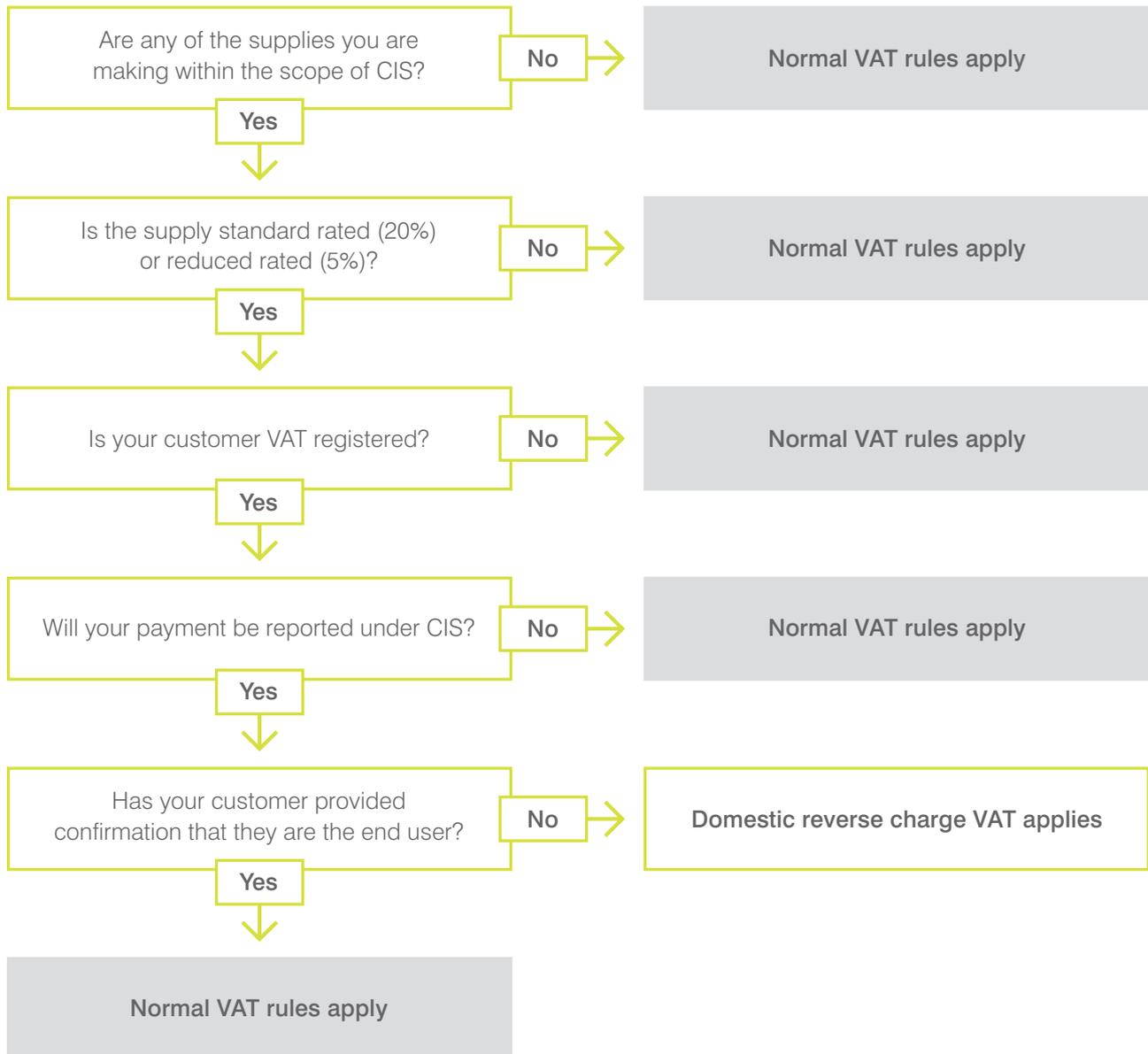
### Will this affect me?

If you make and/or receive supplies of construction services, where payments are required to be reported through the Construction Industry Scheme (CIS) then this change may affect you.

The change will apply to the supply of services between VAT registered building contractors and VAT registered sub-contractors, which are subject to VAT at the standard rate of 20% and the reduced rate of 5%.

Contractors and sub-contractors include anyone who is acting in that capacity by making a supply of building work, regardless of whether this is their normal activity.

## Decision chart



## What is a reverse charge?

VAT normally works whereby a supplier of goods or services charges their customer VAT and then pays the VAT on the supply to HMRC as output tax; the customer then claims the VAT back as input tax.

The reverse charge system moves both sides of this accounting to the customer. The supplier no longer charges VAT, instead, the customer charges themselves VAT and pays directly to HMRC as output tax. The customer claims the VAT back on the supply as input tax (subject to the normal rules on claiming VAT).

Partially exempt businesses receiving such supplies will have to account for the full output tax on the supply, and will only be able to claim the input tax subject to the normal partial exemption restrictions and de minimis limits.

---

## When to check if your customer is VAT & CIS registered or an end user

If you are certain a customer is an end user, perhaps because you have supplied similar services previously, you can apply normal VAT treatment.

A way of dealing with the question of end user status is to include a statement within your terms & conditions to say it is assumed a customer is an end user unless they advise otherwise.

## How do I invoice for supplies of construction services subject to the new reverse charge?

If you sell construction services under the reverse charge procedure you will need to obtain your customer's VAT registration number and satisfy yourself, as far as possible, that the number is genuine and the goods or services are being bought for a business purpose.

A VAT invoice will still be required for supplies of construction services subject to the new reverse charge. This invoice should show all the information normally required on a VAT invoice, except that VAT must not be included in the amount shown on the invoice as 'VAT charged'.

### The invoice must include reference to the reverse charge and be marked:

- + reverse charge: VAT Act 1994 Section 55A applies, or
- + reverse charge: S55A VATA 94 applies, or
- + reverse charge: Customer to pay the VAT to HMRC.

The invoice should also include the amount of VAT to be accounted for by the customer under the reverse charge, this is the amount of VAT that you would have charged if the supply had not been subject to the reverse charge.

If you produce VAT invoices using an IT system that cannot show the amount of VAT to be accounted for under the reverse charge, then the wording of the invoice should include a legend such as '*customer to account to HMRC for the reverse charge output tax at standard rate/reduced rate (delete as applicable) on the VAT-exclusive price of items marked reverse charge*'.

---

## How do I account for construction supplies subject to the new reverse charge on my VAT return?

When you make a reverse charge supply you must include the VAT exclusive value of that supply in the total value of sales in Box 6 on your VAT return. There will be no output tax in Box 1 because that is the responsibility of your customer.

---

## How do I account for construction purchases subject to the new reverse charge on my VAT return?

When you receive a reverse charge supply you must enter the output VAT payable in Box 1 of your VAT return, but do not include the value of the supply in Box 6.

You may also claim input VAT, subject to the normal rules, by including it in Box 4 of your VAT return, the VAT exclusive value should be entered in Box 7.

Major accounting software suppliers including SAGE, Xero, and Quickbooks already have default tax codes for domestic reverse charge supplies liable to VAT at 20%.

We expect them to introduce additional codes for domestic reverse charges subject to VAT at 5% in time for 1 October 2020.

---

## Which specific construction services will this apply to?

### The supplies affected are pretty much everything:

- + Construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations.
- + Construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including (in particular) walls, roadworks, power-lines, electronic communications apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipe-lines, reservoirs, water-mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence.

- + Installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection.
- + 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 internal or external surfaces of any building or structure.
- + Services that form an integral part of, or are preparatory to, or are for rendering complete, the services described in the points 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.

---

## What about mixed supplies?

If there is a reverse charge element in a supply, then the whole supply will be subject to the reverse charge.

---

## What if I use the Flat Rate Scheme?

If you use the Flat Rate Scheme (FRS) you should give special consideration to whether you should continue to use the scheme after 1 October 2020.

The issue is that reverse charge supplies are excluded from FRS. This means that if you only make reverse charge supplies your FRS VAT returns will be nil, in which case you will not receive any benefit for your input tax. Normally when using FRS, you pay HMRC less 'output tax' than that you have charged your customers, based on the difference between 20% and your FRS rate, with this difference giving you what is in effect an allowance for your input tax. If you have no FRS supplies to declare, you will lose this benefit.

---

## Further guidance and next steps

HMRC guidance on the domestic reverse charge can be found by visiting [www.gov.uk](http://www.gov.uk).

**We would advise you prepare for 1 October 2020 by:**

- + Checking to see if the reverse charge affects your sales or purchases.
  - + Updating accounting systems and software to handle the reverse charge.
  - + Training all employees that are responsible for VAT on the reverse charge and how it works.
- 

**If you have any queries regarding reverse charge for building and construction services please do not hesitate to contact our VAT Team for advice. We offer free initial consultations.**



### MA Partners LLP

7 The Close Norwich Norfolk NR1 4DJ

2 Cyprus Court Queens Square Attleborough Norfolk NR17 2AE

12 Church Street Cromer Norfolk NR27 9ER

☎ 01603 227600

✉ [vatteam@mapartners.co.uk](mailto:vatteam@mapartners.co.uk)

[mapartners.co.uk](http://mapartners.co.uk)



**Disclaimer** We believe the information herein to be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein. **September 2019** Printed and published by © MA Partners LLP. M+A Partners is the trading name of MA Partners LLP, a limited liability partnership registered in England and Wales (LLP number OC 361855) A list of members may be inspected at our registered office: 7 The Close, Norwich, NR1 4DJ. The term "partner" is used to refer to a member of MA Partners LLP. Registered to carry on audit work in the UK; regulated for a range of investment business activities; and licensed to carry out the reserved legal activity of non-contentious probate in England and Wales by the Institute of Chartered Accountants in England and Wales.