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VAT – Domestic reverse charge for builders

3 February 2021

PRESENTED BY:

NEIL WARREN

Moderator



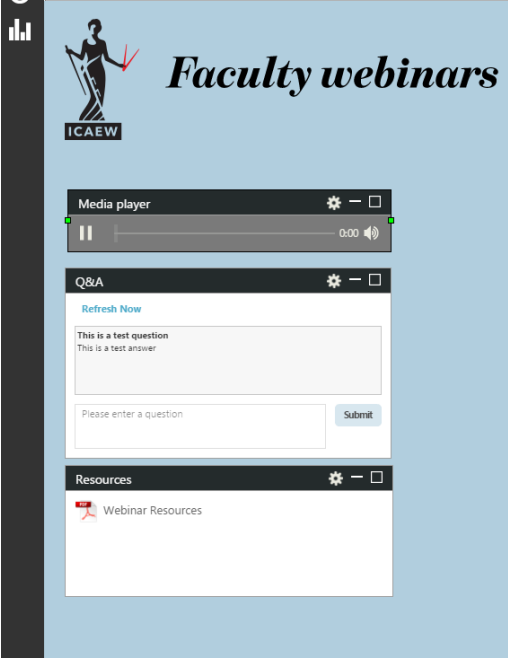
Today's moderator
Anita Monteith
Technical Lead
ICAEW Tax Faculty

Speaker



Today's speaker
Neil Warren
VAT Consultant
and Author

Ask a question or download resources



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Third time lucky – 1 March 2021

- Previous dates aborted – 1 October 2019 and 1 October 2020 – government has confirmed 1 March will happen
- Purpose of change – to reduce VAT fraud in the construction industry – prevent builder from charging 5% or 20% VAT and not paying it to HMRC – missing trader fraud
- Reverse charge does not apply to zero-rated sales eg work on new dwellings – only on work at 5% or 20% VAT
- Outcome of reverse charge – no VAT is charged by supplier of services – customer includes output tax in Box 1 of VAT return instead
- Cash flow outcome – needs to be considered eg £48,000 including VAT paid to builder on 1/1/21 – paid to HMRC 7/5/21 – monthly VAT returns?

What work is included in new rules?

- **Supplier checklist** – to consider for each job
- Is the customer registered for CIS and VAT?
- Does the work fall within scope of CIS and is subject to 5% or 20% VAT?
- Is the builder selling on the services in question to their customer? ie they are not an 'end user' or 'intermediary supplier' for the job – customer must notify supplier if an EU or IS outcome
- **Customer checklist** – don't accept VAT charge from builder if reverse charge applies to a job
- HMRC powers – to assess supplier for output tax not charged; to assess customer if reverse charge has not been applied when it should – customer should get a VAT credit from supplier
- Building materials supplied with labour – also subject to reverse charge

Supplier and customer responsibilities

- **Supplier responsibilities**: VAT amount to be declared by customer must be shown on sales invoice – or at least rate of VAT; clear wording that customer must account for VAT with reverse charge
- HMRC suggested wording: “reverse charge - customer to pay VAT to HMRC” or “No VAT charged – VAT Act 1994, s55A applies to this invoice”
- Tip – check VAT number of customer on HMRC’s new VAT number checker service
- Tip for suppliers from HMRC – wording in contract – “We will assume you are an end user or intermediary supplier unless you say you are not.”
- **Customer responsibilities**: Tell supplier if you are an ‘end user’ or ‘intermediary supplier’ for any of the work
- End user – work does not relate to an onward supply of construction services eg work at customer’s head office or a buy-to-let property they own
- Intermediary supplier – a business registered for CIS/VAT that is linked to an end user – CA 2006, s1161; end user and intermediary supplier both have interest in land eg tenant and landlord; reverse charge does not apply to supplies to an intermediary supplier – normal VAT rules

Example – how it works

- Plumber Pete - £10,000 + £2,000 VAT = £12,000 – to Contractor Ltd
- Until 28 February 2021 – Pete’s VAT return:
 - Box 1 = £2,000; Box 6 = £10,000
- VAT return of Contractor Ltd:
 - Box 4 = £2,000; Box 7 = £10,000
- From 1 March 2021:
 - Peter charges £10,000 no VAT– Box 1 figure of £2,000 included on VAT return of Contractor Ltd
 - VAT return of Contractor Ltd:
 - Box 1 and Box 4 = £2,000; Box 7 = £10,000
 - VAT return of Pete – Box 6 = £10,000
- End result – no difference in figures submitted to HMRC – just who pays output tax.
- Box 4 – is it always the same as Box 1 for buyer of construction services?
- Timing difference – Contractor Ltd accounts for reverse charge – invoice or payment date, whichever happens first – even if Contractor Ltd uses cash accounting scheme

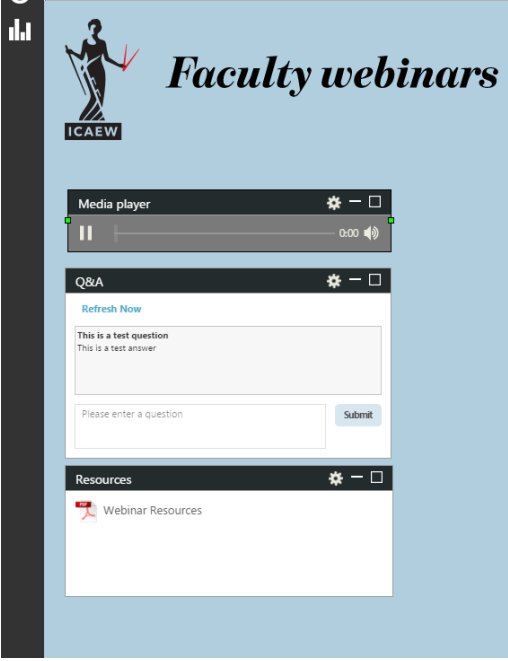
Other matters

- Employment business – excluded from reverse charge rules
- 5% disregard – new concept with ‘take three’ – if reverse charge work on an invoice is 5% or less than total invoice value, normal VAT rules apply
- Example – Decorator Debbie – sales invoice has two elements – reverse charge work £500; non-reverse charge work £8,000 (end user work) – VAT exclusive figures.
- $\frac{£500}{£8500} = 5.9\%$ - reverse charge applies to all invoice. But if reverse charge work was £400 – invoice would be £8400 + £1680 VAT – 5% disregard now applies.
- Flat rate scheme – reverse charge sales are excluded from VAT return – leave scheme so that input tax can be claimed on materials and overheads?
- Invoice splitting – can you raise separate invoices for materials and labour ie charging VAT on materials to help cash flow? – No – single supply of construction services with materials – separate orders doesn’t work either.
- Credit notes – no need to adjust VAT if both parties agree – otherwise, customer reduces Box 1 and Box 4 - words on credit note as such.
- HMRC technical guide – 24 September 2020



*Any
questions?*

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 - 11 February – MTD for Income Tax Self Assessment
 - 15 February – IR35 and employee status
 - 23 February 2021 – Getting Research and Development Claims right

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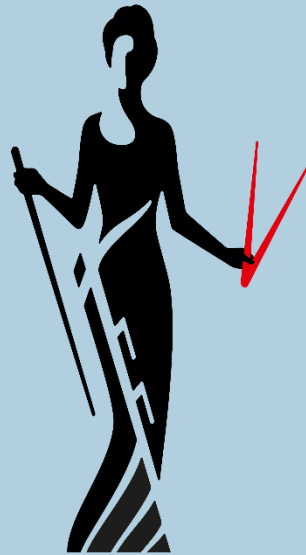
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