

Our next Speakers:



Construction Reverse Charge VAT

- Jim Etherton, Chair, Construction SIG, BASDA



- Dave Nickolls, VAT Serious Non Compliance and Fraud Team, HMRC



The biggest challenge for Construction Industry Finance Departments in 2019



Construction Reverse Charge VAT

BASDA has been represented by Jim Etherton on the HMRC Stakeholders Forum since December 2017

The HMRC Stakeholders Forum has helped draft the Legislation and Guidance

BASDA has been pressing to make both the legislation and guidance as simple as possible

But this is still going to be very confusing for many in the Construction Industry

It will take co-operation of all concerned to make this work



Construction Reverse Charge VAT

BEFORE: Normal VAT

- **Subcontractor** Invoices £1,000 plus £200 VAT
- **Contractor** pays **Subcontractor** £1,200
- **Subcontractor** enters £200 Output Tax on VAT Return
- **Subcontractor** pays £200 VAT to **HMRC**
- **Contractor** enters £200 Input Tax on VAT Return
- **HMRC** refunds £200 to **Contractor** (assuming the VAT is fully recoverable)

AFTER: Reverse Charge VAT

- **Subcontractor** Invoices £1,000 without VAT
- **Contractor** pays **Subcontractor** £1,000
- No VAT payable by **Subcontractor** to **HMRC**
- **Contractor** enters £200 Output Tax on VAT Return
- **Contractor** Enters £200 Input Tax on VAT Return
- No VAT payable/recoverable by **Contractor** to/from **HMRC** (assuming the VAT is fully recoverable)



VAT Reverse Charge for Construction Services

DAVID NICKOLLS
HM Revenue & Customs

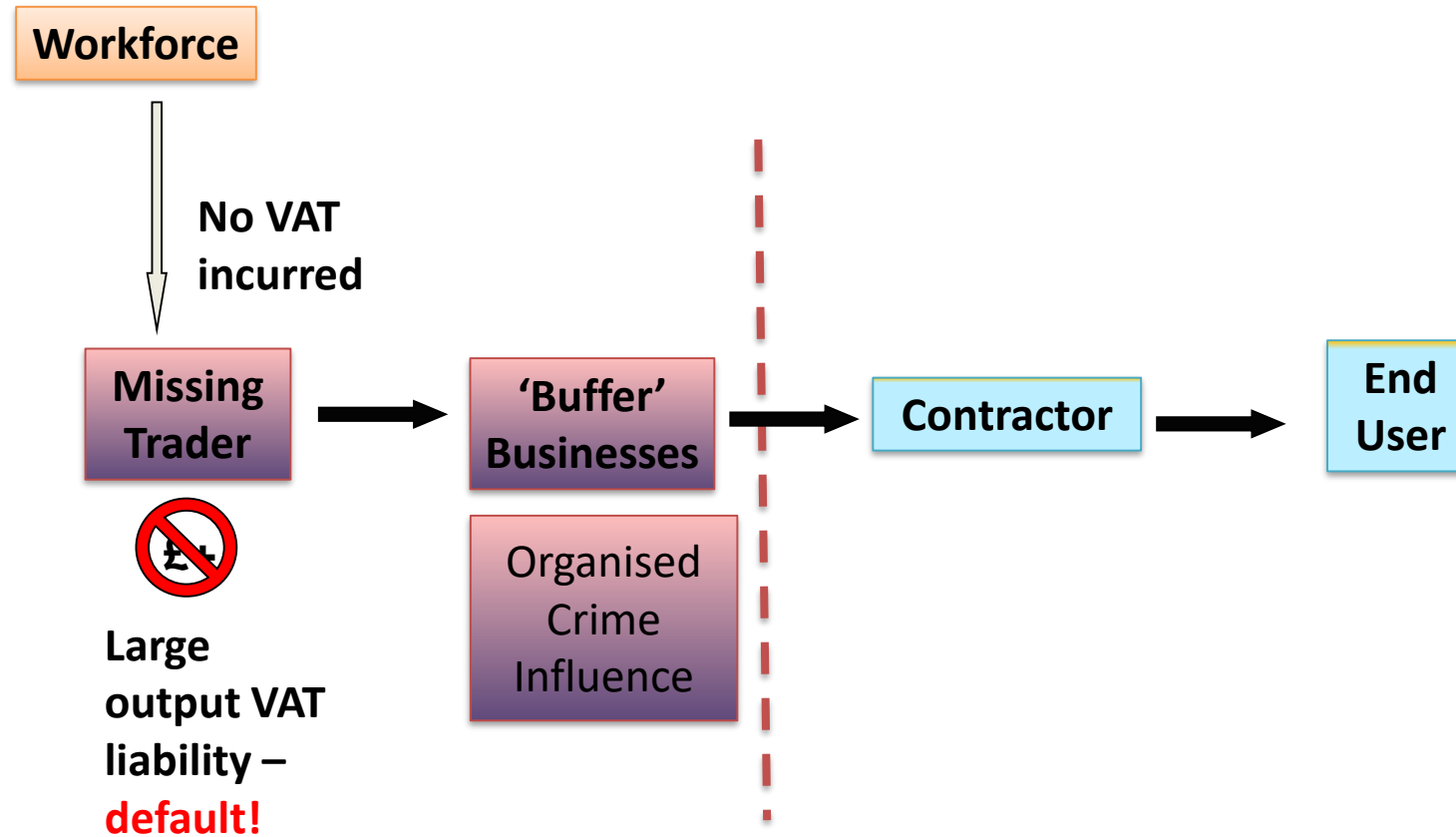


Background – why introduce reverse charge?

- Response to sustained criminal attacks – stealing public revenue through Missing Trader fraud.
- Will prevent losses estimated at £100 million per year from this form of fraud.
- Reverse charge for construction services is common across EU Member States - currently in place in 18 countries, including all other major economies.



The fraud



- Consultation with external stakeholders for the past 2 years.
- A number of changes/exclusions have arisen from consultation.
- Working on guidance with a view to publication early next month.
- Speaking at events and looking to arrange webinar.



Impact for affected businesses

- Construction businesses making Reverse Charge supplies may go from a net payment to a net repayment position on their VAT returns.
- This is because they no longer need to collect and pay over VAT on some or all of their supplies.
- HMRC recognises this may impact on the business's cash flow.
- To help manage this, businesses can apply for monthly VAT returns.



- HMRC recognises the potential for inadvertent errors – reverse charge applied where it shouldn't have been (or vice versa).
- 'Light touch' period for first 6 months after introduction - penalties will only be considered where businesses are deliberately taking advantage by not applying the correct accounting treatment.



Construction Reverse Charge VAT

Does not apply to supplies by employment businesses

DOES THE SUPPLY FALL WITHIN THE SCOPE OF CIS?

NO

YES

IS THE SUPPLY STANDARD RATED OR REDUCED RATED?

NO

YES

IS YOUR CUSTOMER VAT REGISTERED?

NO

YES

IS YOUR CUSTOMER REGISTERED FOR CIS?

NO

YES

HAS YOUR CUSTOMER PROVIDED CONFIRMATION THAT IT IS AN END USER?

YES

NO

Normal
VAT
Rules
Apply

Domestic Reverse Charge VAT Applies



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Construction Reverse Charge VAT

BEFORE: Normal VAT

- **Subcontractor** has primary responsibility for applying the correct VAT treatment to transactions
- **Subcontractor** has a cash-flow benefit from receiving payment for VAT and holding it until next VAT Return is due
- **Subcontractor** charges VAT to all customers

AFTER: Reverse Charge VAT

- **Contractor** has primary responsibility for applying the correct VAT treatment to transactions
- **Subcontractor** loses the cash-flow benefit of VAT – which could initially cause financial problems
- **Contractor** gains cash-flow benefit from not having to pay VAT to Subcontractor
- **Subcontractor** charges VAT only to customers who are not VAT registered or who are exempt from operating the Construction Reverse Charge (but **Contractor** is responsible for deciding whether Reverse Charge applies)



Construction Reverse Charge VAT

For the Supplier of a Reverse Charge Transaction of £ 1,000 at Standard Rate

Box 6 Sales Excluding VAT £ 1,000

For the Customer of a Reverse Charge Transaction of £ 1,000 at Standard Rate

Box 1 VAT Due on Outputs £ 200

Box 4 Input VAT Reclaimable £ 200

Box 6 Sales Excluding VAT £ Nil

Box 7 Purchases Excluding VAT £ 1,000



A: Without Software Development

1. User has to identify Reverse Charge Transactions and adjust on VAT Return
2. User has to enter Output VAT and Input VAT separately on Transactions

B: With Software Development

1. User selects Reverse Charge VAT Code and software automatically creates separate Output and Input VAT transactions for inclusion in the VAT Return
2. User selects Reverse Charge VAT Code and software automatically shows the single VAT transaction as both Input and Output in the VAT Return
3. Either of these methods with additional validation to help ensure that Reverse Charge VAT Codes are applied in correct circumstances.



Construction Reverse Charge VAT

There has been very substantial fraud
which needs to be combatted

Implementation of this in the UK
Construction Industry will not be easy

With our software we can help ensure that
this is no more difficult than necessary

Clear communication to all
concerned will be essential
for a smooth transition to
the Reverse Charge

