

VAT reverse charge for construction services

June 2019

Introduction of the reverse charge for construction services with effect from 1 October 2019

A business supplying goods or services is normally required to charge VAT and declare this to HMRC. However, with some UK specified supplies, the supplier does not charge and collect VAT on the supply. Instead, the customer is required to account for output tax to HMRC. This VAT is recoverable, subject to the normal rules and the mechanism is called the **reverse charge**.

Why is this being introduced in the construction industry?

Currently, a sub-contractor could charge VAT to the customer and move on without declaring this to HMRC.

The danger to the customer is that he is exposed by reclaiming VAT that has not been remitted to HMRC by the supplier. The reverse charge will help address this.

When will the reverse charge apply?

The reverse charge will apply to services that are subject to standard rate VAT (currently 20%) or the reduced rate of VAT (5%) and supplied by a sub-contractor to a main contractor where payments are required to be reported through the Construction Industry Scheme (CIS).

Businesses that supply services to 'end users' (including 'deemed contractors') and businesses that are not registered for VAT will not be affected.

Special rules may apply to supplies of services between parties connected by virtue of a group structure.

Which services are affected?

Services that **will** be affected by the introduction of the reverse charge include:

- general construction
- groundworks, renovations and maintenance services
- heating, ventilation and air conditioning
- cleaning services carried out in the course of construction
- painting and decorating of buildings and other structures.

Which services are not affected?

Supplies that are **not** affected by the introduction of the reverse charge include:

- zero rated services
- professional services provided by architects, surveyors and other consultants
- the installation of seating, blinds and shutters
- the installation of security systems, burglar alarms, CCTV and PA systems.

Simplifications

To avoid complications, where there is a package of services which include elements from both of the above lists (ie a 'mixed supply') the whole supply will be subject to the reverse charge. In certain circumstances, supplies that do not exceed £1,000, to a particular customer, fall outside of the reverse charge mechanism and the normal VAT rules apply.

Recipient of services

Care should always be taken when accepting an invoice from a contractor where VAT is charged. If incorrect, a penalty could be raised by HMRC for reclaiming VAT that the business is not entitled to.

Implications

Looking through the supply chain, subcontractors will still have to be VAT registered if they are over the threshold (currently £85,000 per annum), and they will have to issue a VAT invoice which indicates that the supplies are subject to reverse charge. They will not, however, charge VAT on their subcontract services and this could represent a loss of cash flow benefit to them. They may also see further delays creeping into their cash flow. For example, HMRC may examine any repayment returns before paying out.

What happens next?

If you consider you may be affected by the changes mentioned above, please contact our [specialist VAT team](#).

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