

Construction Industry VAT reverse charge



DEEKS VAT
CONSULTANCY

DAVIES TRACEY

CHARTERED ACCOUNTANTS & BUSINESS ADVISERS





HM Revenue
& Customs

Construction Industry Scheme



DEEKS VAT
CONSULTANCY

What is the CIS Reverse Charge?



When the reverse charge applies the customer accounts for the supplier's output VAT.

The supplier treats his supply as zero rated and the customer charges himself output tax as though he has made a supply to himself. This is the customers input tax.

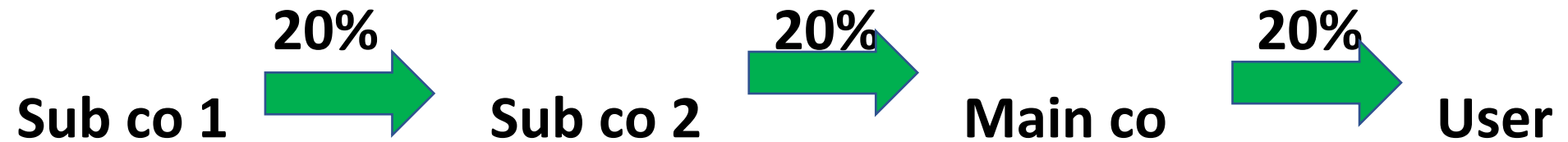
On the VAT return the customer includes the VAT in boxes 1, 4 and 7.
The supplier accounts for the net value in box 6 on his VAT return.

When does it start & What is its purpose?

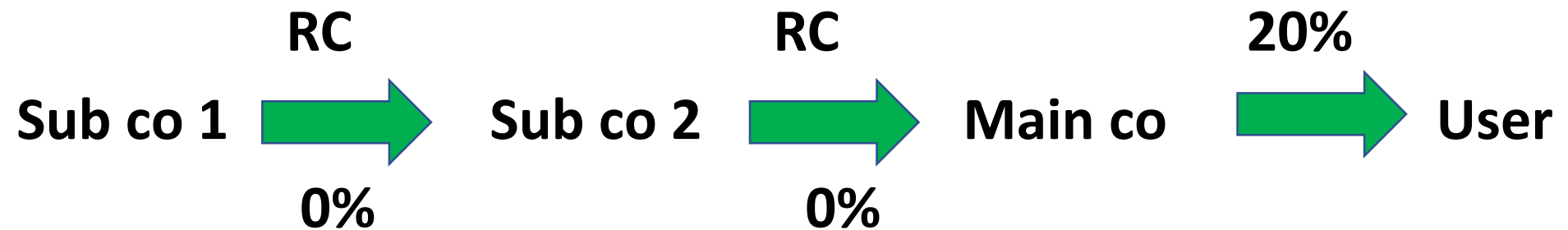


- The Construction Industry Scheme (CIS) VAT reverse charge applies to construction services from 1 March 2021.
- The measure was due to commence in October 2019 and has been delayed twice due to Brexit and the Coronavirus.
- The aim of the measure is to reduce VAT fraud in the construction sector.

Current Position- Prior to 1 March 2021



Future position – from 1 March 2021





DEEKS VAT
CONSULTANCY

When does the CIS Reverse charge apply?

- This measure only applies to construction supplies made by a business to a business.
- The Reverse Charge applies when a number of conditions are met.

The Conditions are:

- The supply for VAT consists of construction services and materials.
- It is made at a standard or reduced-rate of VAT.
- Between a UK VAT registered supplier and UK VAT registered customer.
- Supplier and customer are registered for CIS.
- The customer intends to make an ongoing supply of construction services to another party.
- The supplier and customer are not connected.

The CIS reverse charge does not apply to any of the following supplies:



- Supplies of VAT exempt building and construction services.
- Supplies that are not covered by the CIS, unless linked to such a supply.
- Supplies of staff or workers.

The CIS reverse charge does not apply to taxable supplies made to the following customers:



- A non-VAT registered customer.
- 'End Users' i.e. a VAT registered customer who is not intending to make further on-going supplies of construction. Must issue a certificate.
- 'Intermediary suppliers' who are connected e.g. a landlord and his tenant or two companies in the same group. Must issue a certificate.

Excluded services

- Drilling for, or extracting, oil or natural gas.
- Extracting minerals (using underground or surface working) and tunnelling, boring, or construction of underground works, for this purpose.
- Manufacturing building or engineering components or equipment, materials, plant or machinery, or delivering any of these to site.
- Manufacturing components for heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems, or delivering any of these to site.
- The professional work of architects or surveyors, or of building, engineering, interior or exterior decoration and landscape consultants.
- Making, installing and repairing artworks such as sculptures, murals and other items that are purely artistic.
- Signwriting and erecting, installing and repairing signboards and advertisements.
- Installing seating, blinds and shutters.
- Installing security systems, including burglar alarms, closed-circuit television and public address systems.

What is the impact of the CIS Reverse Charge?



It will require a significant change of approach in many CIS businesses:

- Staff will need to be trained to identify relevant CIS contracts and End-Users.
- Accounting and bookkeeping systems will need to be modified to cope with the new invoicing and reporting obligations.
- Cash flow will be affected and those at the start of the supply chain may become VAT repayment claimants: they need to consider whether to file monthly returns. The main contractor will gain a cashflow advantage.
- It may require a business that is the recipient of the supply to VAT register.

Problem areas

- Mixed supplies – goods & services – RC
- Mixed supplies – Specified supplies & non specified supplies – RC
- Mixed supplies – Specified supplies & excepted supplies – No RC

Tax Point - When to account for the Reverse charge?



VAT is due when a VAT invoice is issued, or payment is received, whichever is earlier.

For invoices issued for specified supplies that become liable to the reverse charge, the VAT treatment for invoices with a tax point:

- before 1 March 2021 – the normal VAT rules will apply and you should charge VAT at the appropriate rate on your supplies
- on or after 1 March 2021 – the domestic reverse charge will apply

Authenticated Tax Receipts or Self-billed invoices

Date entered in customer's accounting system	Date payment made	VAT Treatment
Before 1 March 2021	On or before 31 May 2021	Normal VAT rules
Before 1 March 2021	On or after 1 June 2021	Domestic reverse charge
On or after 1 March 2021	On or after 1 March 2021	Domestic reverse charge

VAT schemes

Businesses will need to review their schemes

- Cash accounting cannot be used for CIS reverse charge.
- Reverse charge supplies are not to be accounted for under the Flat Rate Scheme. Users of the Flat Rate Scheme will have to consider if it's still beneficial to them bearing in mind that under the scheme they cannot recover VAT incurred on purchases of materials, overheads and so on.
- If a business is likely to become a VAT repayable business, it will be beneficial for it to move to monthly VAT returns.

Invoices



Invoice

Customer name

Address

VAT Reg No.

Invoice No.

Invoice date/tax point date

Supplier name

Address

VAT Reg No.

Description	Net (£)	VAT Rate	VAT (£)	Gross (£)
Supply & Install office partition	40,000	20%	8,000	40,000
VAT Act 1994 Section 55A	Net		40,000	
Reverse Charge applies to customers to pay the VAT to HMRC	VAT		0	
	Gross		40,000	

Risks



Bulk of the risk is with the contractor as the customer:

- Denial of input tax, where no reverse charge is applied
- Suggestion of being involved with fraud, where pay VAT that should have been subject to the reverse charge
- Failure to issue an end user certificate

Burden

- Bulk of burden on supplier

Have to decide whether supplies fall within the RC

Have to decide whether the customer is an end user or an intermediary

- May lead to contractors working with fewer subcontractors
- Significant cashflow disadvantage

Recommendations

- Customer to include RC information in job tender
- Suppliers to include RC information in job tenders
- Consider warranties to cover VAT and Penalties
- Suppliers consider moving to monthly VAT returns to reduce the cashflow burden
- Suppliers on cash accounting to move to accruals basis
- Review bookkeeping and invoicing systems

ANY
QUESTIONS
?

Contact details

Send all queries to:



Ian Kelly,
Tax Partner, Davies Tracey
01642 606003
ian.kelly@daviestracey.co.uk
www.daviestracey.co.uk

With thanks to today's
host:



DEEKS VAT
CONSULTANCY

Jane Deeks
07710 553831
jane@deeksvat.co.uk
www.deeksvat.co.uk