

VAT: Domestic reverse charge for building and construction services

UK VAT rules on property and construction have always been complex and sometimes confusing.

From 1 March 2021, a new domestic VAT reverse charge will be introduced for specified building and construction services. The new regime, which will have a significant impact on the sector, will require the purchaser rather than the supplier to account for VAT on certain construction services.

Why has this legislation been introduced?

The new rules are intended to combat missing trader fraud within the construction sector. Organised criminal gangs currently steal millions of pounds worth of VAT each year through missing trader fraud in this industry. The implementation of this regime should make it more difficult for fraudsters to perpetrate missing trader fraud as it will be the customer, rather than the supplier, who is responsible for accounting for the VAT on the supplies.

What is changing?

Certain supplies made by a company offering construction services on or after 1 March 2021 will be treated differently for VAT purposes. As a general rule, it is the supplier of goods or services who is required to account for VAT to HMRC on those supplies (provided they are made to a UK customer). However, under the new rules it is the customer, not the supplier, who will be required to account for VAT on any services that fall within the regime.

The domestic reverse charge will apply to supplies of 'specified services' from one VAT registered business to another, where the recipient is not the end user of the services. 'Specified' services are supplies of building and construction services, supplied at the standard or reduced rates, which are required to be reported under the Construction Industry Scheme (CIS).

Who will not be affected by the changes?

There are a number of occasions where the domestic reverse charge will not apply, including:

- The services supplied do not fall within the scope of the CIS
- The service supplied is zero-rated
- The customer is not registered for VAT or the customer is not registered for CIS
- Specified supplies are made to 'end users', i.e. consumers or final customers of building and construction services, provided written confirmation of this status is given to the supplier
- Supplies of building and construction materials are made separately and independently of construction services
- Specified supplies are made to 'intermediary suppliers' (who make onward supplies of the services) who are connected with the end user of the services or who have an interest in the same land as the end user of the services, provided written confirmation of this status is given to the supplier. For example, this would apply where a landlord receives services for a supply to their tenant.

How will this affect your business?

Many businesses use the VAT that they charge on their supplies as working capital for the quarter before paying it over to HMRC. This new regime will impact on the cash flow of these businesses, especially if they have become accustomed to using this "borrowed cash".

Conversely, those businesses at the opposite side of this supply chain will face cash flow benefits. As the VAT on these supplies will be accounted for on the VAT return (and recovered at the same time), there will be no VAT payable when the transaction occurs.

Additionally, there will be a cost associated with adapting VAT accounting systems and processes to reflect the new rules.

Invoicing for the supplies

Invoices for services subject to the domestic reverse charge must continue to include all the standard requirements of a VAT invoice (including how much VAT is due under the reverse charge or the rate of VAT if the VAT amount cannot be shown) whilst also stating that the domestic reverse charge applies and that the customer is required to account for the VAT. The invoice must also include the wording 'reverse charge'.

What can you do now?

If your business will be affected by this, there are a number of key areas which you should focus on:

- You should review your customer and supplier base to ensure that you are aware which supplies you make or receive will be subject to the reverse charge
- Ensure you are aware of the adapted invoicing requirements from 1 March 2021 and update your systems for these
- Businesses that rely on VAT collected from their customers as working capital (before paying it over to HMRC) are likely to suffer from this loss of cash flow. These businesses should consider the impact this may have and determine if payment terms need to be revisited or if other changes are required.

Key contacts

For more information or assistance in this area, please feel free to contact a member of our specialist VAT and indirect tax team.



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