

WHITEPAPER

The Handy Guide to VAT Reverse Charge for Building and Construction Services

Effective October 2019, HMRC is introducing new legislation which shifts the VAT liability from the supplier to the end recipient of services in the construction industry. Don't delay. Get your business ready with Sage and our construction-specific partners Eque2.



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VAT Reverse Charge: What, Why, When

In 2017, the UK Government announced new legislation to combat VAT fraud seen in the Construction Industry. The goal is to cut down on 'missing trader' fraud where the companies receive high net amounts of VAT from their customers and then go missing.

In summary:

The VAT Reverse Charge legislation will come into effect in October 2019 and is estimated to impact up to 150,000 businesses in the construction and building sector.

The legislation is concerned with moving the VAT liability from the supplier of a service in the construction industry to the end recipient.

Who's effected?

- The Reverse Charge will apply to any 'construction services' supplied, and any goods supplied in conjunction with them
- The legislation impacts business' registered as contractors to work in the construction industry service, and end recipients of the services
- The services to which the reverse charge applies (e.g. construction, installation etc.) are detailed on [HMRC](#).

Exclusions:

The legislation does not apply to:

- Zero-rated supplies of construction services
- The supply of solely goods
- Supplies of specified services where the supplier and customer are connected in any way, and for supplies between landlords and tenants
- Suppliers of specified services overseas (The Construction Industry Scheme legislation is concerned with the domestic supply of services only)
- Where the recipient is not going to be making an onward supply of construction services

The VAT Reverse Charge Process Explained

Rather than the supplier charging and accounting for the VAT, the end recipient of those supplies, governed by the Construction Industry Scheme accounts for the VAT. Here's how it works in practice.

Rather than the supplier charging and accounting for VAT, the recipient of those supplies accounts for the VAT.

The Supplier will need to issue VAT invoices that clearly indicate the supplies are subject to the domestic reverse charge and that the customer is required to account for the VAT. The VAT due should be clearly stated however should not be included in the amount shown as total amount charged.

If the recipient/customer is VAT registered, must then account for the VAT due on that supply via its VAT return at the appropriate rate, instead of paying the VAT to the supplier. The recipient may recover that VAT amount as input tax, subject to the normal rules – this would normally mean a 'nil net' tax position with no VAT being due to HMRC.

Good to know

- The legislation stipulates that if there is a reverse charge element in a supply then the whole supply will be subject to reverse charge if the parties agree. It will also cover the provision of construction services that includes materials.
- There is no minimum threshold from which the reverse charge would apply

When to use the Reverse Charge Legislation

Deciding when to apply domestic reverse charge

Using this flowchart you can see how you would decide whether to apply normal VAT rules or apply the domestic reverse charge.



Impact on your VAT Return

Completion of the VAT Return (Suppliers)

Suppliers of goods or services under the domestic reverse charge **must not** enter in Box 1 of the VAT Return any output tax on sales to which the domestic reverse charge applies but must enter the value of such sales in Box 6.

Completion of the VAT Return (Customers)

Customers must enter in box 1 of the VAT Return the output tax on purchases to which the domestic reverse charge applies but must not enter the value of such purchases in Box 6. They may reclaim the input tax on their domestic reverse charge purchases in Box 4 of the VAT Return and include the value of the purchases in Box 7, in the normal way.



How to get your construction business ready

The new legislation comes into effect in October 2019. Get ready now by making sure you have the systems in place to manage VAT, CIS and other construction-specific accounting processes relevant to the industry. Many construction companies have invested in software, such as the dedicated Sage CIS module, or industry-specific solutions such as Construct for Sage from Eque2, to help them comply with industry legislation to date. However, many companies still rely on outdated systems and multiple spreadsheets to manage other construction accounting processes, including:

Subcontractor Quality and Compliance

Without the right tools in place, it is almost impossible to take control over when and how much to pay subcontractors, track their performance rating and have complete peace of mind about subcontractor quality and compliance. From verifying CIS statuses online to insurance and CSCS card tracking, you need to be able to quickly access subcontractor data, including their history, quality and availability, as well as automatically producing invoices and letters, without relying on spreadsheets.

Applications, Valuations and Retentions

For small- to medium-size construction companies, claiming retentions held or owed by your construction business, can be a lengthy, complex process. Whether it's reliance on manual spreadsheets, having to chase up overdue payments or simply trying to keep on top of multiple applications across different projects, there's a lot that can go wrong.

Variations

Variations are an inevitable aspect of a construction project, with very few projects completed without any changes being requested or enforced. Modern software can help you send out an application for payment to your client to request any additional costs.

Visibility of Costs

Many construction companies don't accurately track purchase orders, losing visibility of costs by using complicated, unwieldy spreadsheets that are difficult to control and report on. With only a limited view of your company's costs and sparse detail, it's impossible to make informed decisions and plan ahead.

Construction-specific reporting

Creating reports such as cost value reconciliation by project, plant on hire and actual vs. budgeted contract costing in real-time on your construction projects in spreadsheets can be very time consuming, very challenging to set up, easily corruptible and most importantly not that accurate. Modern software eliminates the need for messy numbers and formulas.

Get VAT-ready with solutions designed for your industry:

Sage 50cloud Accounts

Leverage the power of the cloud and automatically reconcile your business data with Microsoft Office 365 and Sage Accounts. Reconcile your return with just three clicks using our simple VAT process. Take care of accounting, taxes, invoices, inventory, cashflow, and workflow.

[Sage 50cloud >](#)

Sage 200cloud Accounts

Combined with the power of Microsoft Office 365, Sage 200cloud allows construction businesses to manage their customers and accounts, while keeping an eye on key business metrics surrounding the true financial performance of their projects when combined with industry-specific solutions such as Construct for Sage, from Eque2.

[Sage 200cloud >](#)



sage



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