

VAT REVERSE CHARGE ON CONSTRUCTION SERVICES

From 1 March 2021, the responsibility for accounting to HMRC for VAT will shift from the supplier of construction services to the recipient. This is known as a "Reverse Charge".



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What are the changes?

From 1 March 2021, the responsibility for accounting to HMRC for VAT will shift from the supplier of construction services to the recipient. This is known as a "Reverse Charge".

The change is intended as a measure against "missing trader fraud". The policy behind the new rules is to combat suppliers who charge VAT to their customers and then go missing without ever accounting to HMRC for the extra 20%.

Smaller contractors often use VAT funds as working capital for several months before they account to HMRC. When the change is introduced it is likely that these small businesses will see an instant reduction to their cash flow of 20%.

Why is this an issue?

It is likely that businesses which are unprepared for this sudden drop in income may struggle to pay their debts as they fall due leading to an increase in insolvencies.

The likely result of this is that larger competitors may start to dominate the market and smaller 'one-man band' businesses may be forced out of the

market until they have learnt to adapt to the new VAT rules.

This will have a significant impact on the construction industry as an increase in the number of insolvent subcontractors will cause projects to suffer delay and lead to increased costs and/or disputes. As a consequence, the rule changes also pose a serious risk in respect of the cash flow of those who are dealing with these subcontractors.

When do they take effect?

The statutory instrument will take effect on supplies of construction services made on or after 1 March 2021.

A supply is considered to have been made on completion of performance of the service. If the supply is periodic, it will be deemed to have been made either (1) each time a payment is received by the supplier, or (2) each time a supplier issues a tax invoice to HMRC. Whichever event occurs earliest.

An annual tax point applies if a VAT invoice is not issued or payment is not received within 12 months of the date of commencement of the supply (and at the end of each subsequent 12 month period).

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Who will be affected?

All contractors who are required to report payment under Construction Industry Scheme and who pay VAT at the standard or reduced rates will be affected by the new law. Paragraph 5 of the Value Added Tax (Section 55A) Order 2019 provides a detailed definition of “construction operations”. The rules generally apply to those who carry out construction operations as defined.

Specifically, sub-contractors are likely to feel the most impact. Larger contractors such as main contractors may be better equipped to handle the change with marketing and accounting strategies. In contrast, smaller businesses will lose almost a quarter of their cash flow overnight.

It is likely that some subcontractors will inevitably find themselves unable to pay their bills and will therefore become insolvent. The impact of this will be felt by all businesses in the construction industry.

There are some exceptions to the new legislation including end users, intermediaries and contractors who are not required to report payment under the Construction Industry Scheme. These limited exceptions may be able to abide by normal VAT rules. However, for the majority of the construction industry, the new rules will apply.

What should you do next?

It is crucial you know what you need to do to comply by the 1st March, but also the techniques to reduce its impact. The impacts and solutions will vary. For example, you may need to change software to ensure your sales invoices match the changes, you may need to set up monthly VAT returns to reduce a cash flow shortfall, or you may need to send letters to all of your contacts to discuss the changes.

A4G Chartered Accountants are offering a free, no obligation meeting to support you with the steps you need to take to comply, review how your business is going to be impacted and the solutions to reduce this and whether you need interim finance. You can email amanda.stoneham@a4g-llp.co.uk or give them a call on 01474 853 856 to arrange the meeting with their construction industry specialist adviser and accountant.

Where can I find out more?

[Download A4G's free Domestic Reverse Charge toolkit.](#)

[HMRC Guidance: Reverse Charge](#)

If you have any questions, please get in touch with James at: James.Sargeant@QuiggGolden.com

