

## New VAT Reverse Charge on construction services

From 1 October 2020, a new VAT reverse charge will apply to certain supplies of construction services and supplies of goods made at the same time.

### WHAT IS A REVERSE CHARGE?

A reverse charge requires a customer (rather than a supplier) to account to HMRC for VAT in respect of a supply.

### WHEN DOES THE NEW REVERSE CHARGE TAKE EFFECT?

The new reverse charge applies to supplies within scope made on or after 1 October 2020 (regardless of the date of the agreement under which the supply is made).

### WHICH SERVICES DOES THE REVERSE CHARGE APPLY TO?

The reverse charge will apply to 'construction services' (using a definition very similar to the one that applies for the purposes of the Construction Industry Scheme (CIS)) and to 'associated goods' (i.e., goods supplied with the construction services which fall to be treated as part of a single supply of services).

### ARE THERE ANY EXCEPTIONS?

The reverse charge will not apply if the supplier or the customer are not (and are not required to be) registered for VAT. It also does not apply where the supply in question is zero-rated or exempt.

In addition, supplies are excepted from the new rules in the following circumstances:

- Where the payment for the supply does not need to be reported in a CIS return (e.g., the customer is not registered as a contractor under the CIS);
- Where the supply is made to an 'end user', being a person who uses the services for any purpose other than making further supplies of construction services (e.g., an occupier); and
- Supplies to an intermediary supplier (a person who makes an onward supply of those services without material modification) where:
  - the intermediary supplier is connected with the expected end user (e.g., parent and subsidiary); or
  - supplies are made in relation to land in which both the intermediary and the expected end user have an interest (e.g., landlord and tenant).

## WHAT PRACTICAL STEPS SHOULD POTENTIALLY-AFFECTED BUSINESSES BE TAKING?

- Construction businesses should review the supplies that they make (and receive) from other VAT registered contractors to establish whether the reverse charge will apply from 1 October 2020. In particular, suppliers should get confirmation from their existing customers as to their 'end-user'/'intermediary' status.
- Suppliers subject to the new rules will need to update their invoicing system to deal with invoices subject to the reverse charge (they will need to show VAT but clearly state that the customer must pay it to HMRC).
- Businesses would be well advised to check that their VAT advisers/accountants are aware of the rules and are taking appropriate action in relation to the above.

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