

New VAT Accounting Arrangements for Property



Any business involved with either supplying or receiving construction services needs to be aware of the VAT reverse charge arrangements that will apply from 1 March 2021 (postponed from 1 October 2020).

Suppliers will no longer charge VAT on affected supplies. Instead the customers will account for the VAT as on a supply to themselves.

HMRC has confirmed the introduction of the domestic reverse charge for construction services will come into force on 1 March 2021. HMRC have begun writing to businesses to raise awareness of the change.

Affected businesses:

- Any business registered for both VAT and the Construction Industry Scheme (CIS) that is supplying construction services subject to VAT at either 5% or 20%.
- Any business receiving construction services.

Impact on suppliers

Suppliers must ensure that their agreements with both customers and subcontractors take account of the changes to the VAT legislation as it is unlikely that currently worded VAT clauses will cover this.

They will also need to ensure that their accounting systems can cope with the new arrangements. Most cloud based packages will have some reverse charge functionality but others may not. Accounts staff may require additional training.

It will also be necessary to verify the status of the customer to find out if they are an 'end user' (see below), as VAT will be charged to those customers as normal.

If the customer is not an 'end user' the supplier does not charge VAT but must modify their invoice to make it clear that the customer must account for the VAT.

Invoices must state "domestic reverse charge applies – customer to account for £xxx.xx of VAT to HMRC".

So although the VAT column of the invoice must not show a VAT amount it will still be necessary to work out how much VAT applies so that the customer can include that amount in their VAT records.

There may also be an impact on cashflow as VAT will not be charged on reverse charge invoices. Some businesses may find that they become net VAT reclaimers and may benefit from switching to monthly VAT returns.

Impact on customers

Businesses receiving construction services must provide written confirmation of their status to their supplier. HMRC suggest that the following declaration will suffice:

"We are an end user for the purposes of section 55A VAT Act 1994 reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge."

An 'end user' business is one that is not making an onward supply of construction services. It is also possible that a business that is linked with an end user business will itself be regarded as an end user for the purposes of the reverse charge.

Businesses that are not 'end users' will need to ensure that their accounting systems are able to account for the reverse charge.

Services subject to the reverse charge

The definition of construction services is derived from the CIS legislation. However, the VAT reverse charge applies to both services and any materials supplied with those services. The reverse charge will therefore apply to:

- Constructing, altering, repairing, extending, demolishing or dismantling buildings or structures (whether permanent or not), including offshore installation services
- Constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours
- Pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence
- Installing heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems in any building or structure
- Internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration
- Painting or decorating the inside or the external surfaces of any building or structure
- Services which form an integral part of, or are part of the preparation or completion of the services described above - including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works.



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How to report on VAT returns

A business supplying reverse charge services issues modified invoices with no VAT shown in the VAT column so the only entry on their VAT returns will be to record the sales value in Box 6.

A business receiving reverse charge services will enter the value of the purchase in Box 7 of the VAT return as normal. In addition VAT at the appropriate rate must be 'paid' to HMRC by inclusion in Box 1 of the VAT return and claimed back by inclusion in box 4.

The amount that can be claimed will depend on the normal VAT recovery position of the business.

Penalties

HMRC have confirmed that they will be applying a 'light touch' approach to penalties for the first 6 months but thereafter will be reverting to their normal approach.

Checklist for businesses receiving construction services

1. Review your property and any construction or renovation projects to determine if they qualify you as the end-user for VAT accounting purposes or if you will be regarded as a supplier.
2. If you are not an end user, review your VAT accounting and filing arrangements to ensure your accounting software can cope with the new arrangements. Check your software provider is preparing for this.
3. Seek professional advice if you are unsure how the new legislation will apply to your business property(ies) and related projects.

Checklist for suppliers of construction services

1. Understand the definitions and new working practices you need to adopt in your systems.
2. Review your invoicing and accounting and filing arrangements can cope with the new arrangements – particularly your VAT software provider's ability to help you comply.
3. Consider the cash flow implications of these new accounting arrangements on your business. Currently many contractors and subcontractors in charging VAT, have a period of delay before they pay VAT due to HMRC. Some use this as working capital. With the new VAT arrangements this delay will disappear. Some businesses may find that they become net VAT reclaimers and may benefit from switching to monthly VAT returns.

Can we help?

We are currently helping both businesses supplying construction services and those utilising them to prepare for the new construction industry reverse charge. Organisations will benefit from giving as much preparation time as possible to ensure they are fully compliant on 1 March 2021

If you would like help or advice in the planning and preparation of these new VAT accounting arrangements, please speak with your usual Shipleys contact or one of our specialist VAT team.

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For more help and information contact your Shipleys contact or our VAT specialists:



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